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Politics this week

Mar 26th 2009
From The Economist print edition

Barack Obama went on the offensive over his stewardship of the economy, using television interviews and a prime-time press conference to defend his policies. The president said America was "beginning to see signs of progress" from the bail-outs and stimulus measures that have passed so far. Mr Obama also called on other nations to do their bit to stimulate the world economy.

Democratic leaders in Congress began the process of rewriting Mr Obama's **budget**, and proposed cutting some spending requested by the White House. The administration was earlier dealt a blow when the non-partisan Congressional Budget Office produced its assessment of the budget, and forecast that federal deficits over the next decade would be $2.3 trillion higher than the White House's estimates. See article

The furore rumbled on over **bonuses** paid at Wall Street companies that have received state aid. Andrew Cuomo, New York state's attorney-general, persuaded 15 executives at AIG to return theirs. The Senate delayed consideration of its proposal to tax such bonuses punitively after the White House gave the plan a cool reception.

Drugs prescription

Getty Images

Barack Obama sent hundreds of extra federal agents to reinforce America's border with **Mexico** following a spate of drug-gang murders, a move welcomed on both sides of the Rio Grande. Hillary Clinton, America's secretary of state, visited Mexico and said demand for illegal drugs in the United States made it "co-responsible" for drugs crime.

Venezuela's president, Hugo Chávez, struggling with the country's finances, announced spending cuts. He called Mr Obama "ignorant" about Latin America after the United States' president accused him of exporting terrorism. See article

Honduras's president, Manuel Zelaya, an ally of Mr Chávez, emulated him by calling for a referendum to change the constitution so that he can seek re-election.

Farmers in **Argentina** blocked roads and suspended sales of grains and livestock, seeking to cut heavy export taxes on some farm produce. See article

Michael Misick resigned as prime minister of the **Turks and Caicos Islands**, a British Caribbean territory, after an official inquiry found "clear signs" of corruption in his government.

An olive branch

Barack Obama made a conciliatory overture to **Iran's** leaders and people. In a video-recorded speech to mark Iran's new year, America's president offered "the promise of a new beginning" and relations "grounded in mutual respect". See article

Binyamin Netanyahu, leader of **Israel's** right-wing Likud party, was set to present a coalition government for parliament's approval, after securing an agreement with the Labour Party and its leader, Ehud Barak, as well as with parties on the nationalist and religious right. See article

Israel's firing of white-phosphorus shells over densely populated areas of **Gaza** during its recent military campaign was evidence of a war crime, said Human Rights Watch, a New York-based lobby. Its report followed an earlier one in Israel's *Haaretz* newspaper, which cited claims by Israeli soldiers that

Palestinian civilians had been killed in cold blood.

The African Union and the 15-country Southern African Development Community, an influential regional club, as well as the European Union and the United States, denounced a recent coup in **Madagascar** by Andry Rajoelina and said they would work to restore the country's constitutional order. See article

Domino theory

Hungary's Socialist prime minister, Ferenc Gyurcsany, resigned, saying he was an obstacle to the co-operation needed for change. The Hungarian economy is in deep recession and the currency has slumped despite an IMF rescue package. See article

EPA

The **Czech** government collapsed after losing a parliamentary vote of confidence. President Vaclav Klaus will consider alternatives to the outgoing prime minister, Mirek Topolanek (left). The crisis comes at an awkward time, because the Czechs currently hold the six-month rotating European Union presidency. See article

Spain's prime minister, José Luis Rodríguez Zapatero, came under fierce international criticism for announcing a pull-out of Spain's 600 troops from Kosovo. Spain is one of five EU countries that do not recognise Kosovo's independence. In 2004 Mr Zapatero fell out with George Bush by withdrawing Spanish troops from Iraq soon after being elected.

The governor of **Britain's** central bank, Mervyn King, surprised many by suggesting that the government's prospective budget deficit was too big for any further fiscal stimulus to be possible. In a sign that investors are worried about the state of Britain's finances, a sale of government bonds failed for the first time in seven years.

The British government announced that it would hold an **inquiry into the Iraq war** once the 4,000 British soldiers remaining in the country have returned at the end of July.

Tainted

The political secretary to Ichiro Ozawa, head of **Japan's** main opposition party, was indicted on charges of handling illegal company donations. Mr Ozawa said he would soldier on as party leader, hoping to defeat the ruling Liberal Democratic Party in an election that must be held by September. See article

The Indian Premier League decided to shift its cricket tournament from **India** to South Africa because of security worries. The tournament would have coincided with India's parliamentary election next month, but the government said it could not guarantee security, now a greater concern since a terrorist attack on Sri Lanka's cricket team in Pakistan this month. See article

Reuters

South Africa's government succumbed to pressure from China by banning Tibet's spiritual leader, the **Dalai Lama**, from attending a jamboree in Johannesburg that was intended to publicise next year's football World Cup as an occasion to promote peace. It is a year since China suppressed the worst outbreak of violence in Tibet since the Dalai Lama fled into exile in 1959. China also blocked access to YouTube video footage apparently showing police beating Tibetan protesters. See article

Business this week

Mar 26th 2009
From The Economist print edition

Tim Geithner unveiled long-awaited proposals to deal with **toxic assets**. The American treasury secretary's plan mixes a little private capital with a lot of public money to buy possibly as much as $1 trillion of the bad assets, which Mr Geithner hopes will "get the securities markets...working again". Five private funds will be approved by the Treasury to manage the programme. Firms in the running, such as BlackRock and PIMCO, gave the plan a welcome. Stockmarkets had their best day in months. See article

Mr Geithner then testified to Congress along with Ben Bernanke, chairman of the Federal Reserve, and asked for powers to seize failing **financial companies**, similar to those that exist for taking control of banks. They said the lack of such authority to "unwind an institution of the size and complexity" of American International Group had forced the government to prop up the distressed insurer by taking an 80% stake. In a busy week, Mr Geithner went on to propose a broad overhaul of the regulations governing large hedge funds, private-equity firms and derivatives markets.

Suncor and sands

Suncor Energy, a big producer in Canada's tar-sands industry, agreed to buy **Petro-Canada**, a rival, for C$19.3 billion ($15.8 billion). More consolidation is expected among companies with resources in Alberta's tar sands, which hold the world's second-biggest oil reserves after Saudi Arabia. The decline in oil prices over the past year has led to the postponement of some projects. See article

India's Tata Motors officially launched the **Nano**. Millions of Indians are expected to enter a lottery to place orders for the car, which is the world's cheapest at 100,000 rupees (around $2,000), though delivery charges and extras, such as air conditioning, push the price up. A European model is expected in 2011, and Tata hopes eventually to sell a version of the Nano in America, with stricter pollution controls and safety features. See article

Daimler sold a 9.1% stake worth €2 billion ($2.6 billion) to a sovereign-wealth investment fund in **Abu Dhabi**. Aabar Investments becomes the largest shareholder in the German carmaker.

Asia feels the pain

The World Trade Organisation predicted that **global trade** volumes would drop by 9% this year, the biggest decline since the second world war. Exports from developed countries are forecast to fall by 10%, and those from developing countries, which are more trade-dependent, by up to 3%. See article

Japan's **Mitsubishi UFJ** and **Morgan Stanley** decided to merge their Japanese securities units, creating one of Japan's biggest brokers. MUFJ bought a 21% stake in the American bank last October. Japanese authorities have endorsed legislation that, from June, will make it easier for the country's banks to compete on the same terms as American and European firms.

The governor of China's central bank called for a new world reserve currency to replace **the dollar**, which he suggested could be issued by the IMF. Zhou Xiaochuan said there was a need to reset "the obsolescent unipolar world economic order". Other emerging-market economies are also calling for change; Russia is proposing a motion on a currency at the G20 meeting in London on April 2nd. See article

The **IMF** announced a reform of its lending procedures, including the introduction of a new flexible credit line (FCL) for countries with "very strong fundamentals". The fund hopes that by streamlining loan conditions, countries will tap the FCL to strengthen their economies.

Moody's downgraded its AAA credit-rating for **GE**, which the conglomerate had held since 1967, because of concerns over its credit-card and property businesses. GE was downgraded by Standard & Poor's earlier this month, but by only one notch. Moody's cut its rating by two notches.

Lots of AIGgro all round

Following the fuss over bonuses at AIG, **ING** made a "moral appeal" to around 1,200 employees to return their bonuses. The Dutch bank said the plan was voluntary. And **Société Générale** withdrew plans to award discounted stock options to four directors following a political outcry in France. Nicolas Sarkozy, the French president, also condemned a €3.2m ($4.3m) pay-off made to the departing boss of **Valeo**, a struggling car-parts supplier.

Wal-Mart paid out $933.6m in bonuses to 1m of its workers. The retailer has not had to ask for government assistance.

French workers held the boss of their factory hostage as they sought to renegotiate redundancy packages. It is the second time a boss has been held hostage in France recently over lay-offs. Others have merely been pelted with eggs.

KAL's cartoon

Mar 26th 2009
From The Economist print edition

Illustration by KAL

The American presidency

Learning the hard way

Mar 26th 2009
From The Economist print edition

Barack Obama may at last be getting a grip. But he still needs to show more leadership, at home and abroad

HILLARY CLINTON'S most effective quip, in her long struggle with Barack Obama for the Democratic nomination last year, was that the Oval Office is no place for on-the-job training. It went to the heart of the nagging worry about the silver-tongued young senator from Illinois: that he lacked even the slightest executive experience, and that in his brief career he had never really stood up to powerful interests, whether in his home city of Chicago or in the wider world. Might Mrs Clinton have been right about her foe?

Not altogether. In foreign policy in particular Mr Obama has already done some commendable things. He has held out a sincere hand to Iran; he has ordered Guantánamo closed within a year; he has set himself firmly against torture. He has, as the world and this newspaper wanted, taken a less strident tone in dealing with friends and rivals alike.

But at home Mr Obama has had a difficult start. His performance has been weaker than those who endorsed his candidacy, including this newspaper, had hoped. Many of his strongest supporters—liberal columnists, prominent donors, Democratic Party stalwarts—have started to question him. As for those not so beholden, polls show that independent voters again prefer Republicans to Democrats, a startling reversal of fortune in just a few weeks. Mr Obama's once-celestial approval ratings are about where George Bush's were at this stage in his awful presidency. Despite his resounding electoral victory, his solid majorities in both chambers of Congress and the obvious goodwill of the bulk of the electorate, Mr Obama has seemed curiously feeble.

Empty posts, weak policies

There are two main reasons for this. The first is Mr Obama's failure to grapple as fast and as single-mindedly with the economy as he should have done. His stimulus package, though huge, was subcontracted to Congress, which did a mediocre job: too much of the money will arrive too late to be of help in the current crisis. His budget, though in some ways more honest than his predecessor's, is wildly optimistic. And he has taken too long to produce his plan for dealing with the trillions of dollars of toxic assets which fester on banks' balance-sheets.

The failure to staff the Treasury is a shocking illustration of administrative drift. There are 23 slots at the department that need confirmation by the Senate, and only two have been filled. This is not the Senate's fault. Mr Obama has made a series of bad picks of people who have chosen or been forced to withdraw; and it was only this week that he announced his candidates for two of the department's four most senior posts. Filling such jobs is always a tortuous business in America, but Mr Obama has made it harder by insisting on a level of scrutiny far beyond anything previously attempted. Getting the Treasury team in place ought to have been his first priority.

Second, Mr Obama has mishandled his relations with both sides in Congress. Though he campaigned as a centrist and promised an era of post-partisan government, that's not how he has behaved. His stimulus bill attracted only three Republican votes in the Senate and none in the House. This bodes ill for the passage of more difficult projects, such as his big plans for carbon-emissions control and health-care reform. Keeping those promises will soon start to bedevil the administration. The Republicans must take their share of the blame for the breakdown. But if Mr Obama had done a better job of selling his package, and had worked harder at making sure that Republicans were included in drafting it, they would have found it more difficult to oppose his plans.

If Mr Obama cannot work with the Republicans, he needs to be certain that he controls his own party. Unfortunately, he seems unable to. Put bluntly, the Democrats are messing him around. They are pushing pro-trade-union legislation (notably a measure to get rid of secret ballots) even though he doesn't want them to do so; they have been roughing up the bankers even though it makes his task of fixing the economy much harder; they have stuffed his stimulus package and his appropriations bill with pork, even though this damages him and his party in the eyes of the electorate. Worst of all, he is letting them get away with it.

Lead, dammit

There are some signs that Mr Obama's administration is learning. This week the battered treasury secretary, Tim Geithner, has at last come up with a detailed plan to rescue the banks (see article and article). Its success is far from guaranteed, and the mood of Congress and the public has soured to the point where, should this plan fail, getting another one off the drawing-board will be exceedingly hard. But the plan at least demonstrates the administration's acceptance that it must work with the bankers, instead of riding the wave of popular opinion against them, if it is to repair America's economy. And it's not just in the domestic arena that Mr Obama has demonstrated his willingness to learn: on Iraq, he has intelligently recalibrated his views, coming up with a plan for withdrawal that seeks to consolidate the gains in Iraq while limiting the costs to America.

But Mr Obama has a long way to travel if he is to serve his country—and the world—as he should. Take the G20 meeting in London, to which he will head at the end of next week. The most important task for this would-be institution is to set itself firmly against protectionism at a time when most of its members are engaged in a game of creeping beggar-thy-neighbour. Yet how can Mr Obama lead the fight when he has just pandered to America's unions by sparking a minor trade war with Mexico? And how can he set a new course for NATO at its 60th-anniversary summit a few days later if he is appeasing his party with talk of leaving Afghanistan?

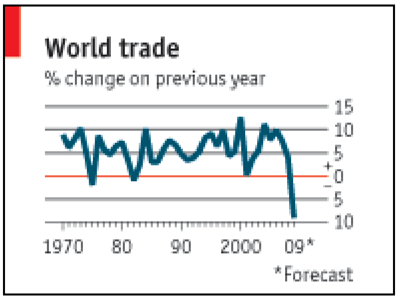
In an accomplished press conference this week, Mr Obama reminded the world what an impressive politician he can be. He has a capacity to inspire that is unmatched abroad or at home. He holds a strong hand when it comes to the Democrats, many of whom owe their seats to his popularity at last year's election. Now he must play it.

The G20 summit

London calling

Mar 26th 2009
From The Economist print edition

Trade is collapsing and protectionism is on the rise. Time for the G20 to get going



THE first task for the leaders of the Group of 20, who will meet in London on April 2nd, will be to do no harm. Don't fall out over whether Germany and China are spending enough public money to get the world economy going. Let's not have a row over how to run the IMF. And spare us a tirade against "market fundamentalism".

The second task is to do something useful. Ideally, the G20 would boost government spending, partly by giving the IMF more money. And it would take five minutes to shunt the re-regulation of finance into groups that can deliberate now and act later, when there is more time and less ire: the last thing to fear from Wall Street today is irrational exuberance.

It is the third task that is being neglected. Publicly, the G20's leaders would be shocked, *shocked* if anyone were to turn against open markets. Even so, trade is collapsing and an insidious protectionism is on the rise (see article). As the storm rages, the London summit looks like offering nothing but pieties. The trading system needs more than that.

Do as I say, not as I do

On March 23rd the World Trade Organisation (WTO) predicted that global trade will plunge by 9% this year—the steepest drop since the second world war. Japan's exports in February were half what they had been a year earlier; yet its imports had fallen so much that the country still recorded a surplus.

This collapse is partly due to globalisation. The days are gone when something was made in one country and exported. Products now contain parts from all over the world. Trade statistics look at value, not value-added, so they include a lot of double counting as parts move across borders and back. When the economy shrinks, trade will shrink faster.

But that is not the full story. The World Bank says that, since the G20 leaders last met in November in Washington, DC, 17 of their countries have restricted trade. Some have raised tariffs, as Russia did on second-hand cars and India did on steel. Citing safety, China has banned imports of Irish pork and Italian brandy. Across the world, there has been a surge in actions against "dumping"—the sale of exports, supposedly at a loss, in order to undermine the competition. Governments everywhere are favouring locally made goods.

Some take comfort from the world's interdependency. Producers in Brazil rejected protection, because Brazilian tariffs would have raised their own prices. Neither of France's carmakers wanted to have to guarantee jobs at home as a condition for state aid, as President Nicolas Sarkozy had stipulated.

But interdependency is a slender reed. Plenty of people argued against the Smoot-Hawley bill, which raised tariffs at the onset of the Depression. One danger today is that, under WTO rules, some countries have scope to put tariffs up without breaching their legal limits. Countries can indeed justify protection using safety or dumping, even if that breaks the spirit of open markets; and when protection reaches some (unknown) level, global supply chains will break down. If that happens, they will not be rebuilt for many years.

After they met in Washington last November, G20 leaders said that they had united to support open markets. But promises alone will no longer do. In London they need to limit the scope for tariff increases—ideally by finishing the Doha round of trade talks; they should agree to put aside anti-

dumping actions and the rest of the apparatus of legal trade protection; and should ensure that subsidies do not discriminate against foreign firms. Leaders were counting on trade to be the straightforward part of the summit, but if they think fighting protectionism is easy work, then they aren't doing enough.

Saving America's banks

Only halfway there

Mar 26th 2009
From The Economist print edition

Tim Geithner's toxic-asset scheme will not work unless banks are forced to sell their problem loans

Reuters

IT WAS a measure of the desperation for a plan—any plan—to tackle the paralysis in the American banking system that stockmarkets soared on March 23rd when Tim Geithner, the treasury secretary, detailed his proposals to purge toxic debt from the banks' balance-sheets. In fact, the effort to recruit private investors into a government-led campaign to buy bad assets from the banks is still, at best, half a plan. It is better than Mr Geithner's woeful false start in February and may one day even prove to be inspired. But it will work only if the Obama administration accompanies it with a cast-iron determination to get to the bottom of America's banking mess. So far the president has shown little stomach for going the whole way.

As it stands, Mr Geithner's Public-Private Investment Programme looks like an ungainly political and financial fudge and far from the market solution the government claims it is (see article). It aims to buy $500 billion-$1 trillion of the loans and hard-to-value securities that have swamped the banks' balance-sheets since the collapse of America's mortgage market in 2007. Ideally, the government would have raised that money from Congress and parked the toxic assets in a discrete "bad bank", or offered to guarantee them. But Congress has bail-out fatigue. Bonus-bashing scores immeasurably higher with voters than adding to the $700 billion earmarked to buy bank assets last October. Of what is left, Mr Geithner has a relatively thin $100 billion for his Augean clean-up. Beyond that there is less than $100 billion in the kitty.

Hence the need to conjure money out of thin air, or rather the government's off-balance-sheet equivalents—the Federal Reserve and the Federal Deposit Insurance Corp, which may provide loans and guarantees without a word from Congress. To show that this is not wasted, there is the figleaf of market discipline: a slug of private money is supposed to ensure that hard-nosed capitalists have enough of a stake to stop the government overpaying. But this is capitalism of the "Heads I win, tails you lose" variety. The government bears almost all the risks, while private investors pocket half the rewards. If there are big pay-offs, Congress could decide to claw back the benefits. Forget bail-out fatigue; the risk is class war.

Hold your nose, however. Mr Geithner's proposal is worth a try, not least because, as any leader at the Group of 20 summit in London next week will tell you, fixing American banks is one of America's—and hence the world's—most urgent economic priorities. However unpalatable it is to shower public largesse on big vulture funds, one of the few ways to see if there is any residual value in all the toxic waste left on the banks' books is to induce someone to buy it. Without a subsidy, there are many reasons for private investors to hold back. Above all, they do not have the same information advantages as the seller, which

is only too keen to offload the worst assets on its balance-sheet while hanging on to the good stuff. The trouble is, the proposal barely has a hope unless banks agree to sell assets, and therein lies Mr Geithner's unfinished task: arm-twisting them to do so. Many banks value their assets well above the prices they would fetch in an open (albeit illiquid) market. They have incentives to keep them there: the lower the price, the more capital they need to raise; in these capital-constrained times, that means the closer banks are to insolvency.

Come on, Tim

But if America wants to avoid the fate of Japan in the 1990s—a lost decade of zombie banks—it is vital that its banks face reality. Mr Geithner has a ready-made tool for that, about which he has been mysteriously quiet of late: his "stress tests" to determine whether America's biggest banks have enough capital. Done rigorously, the stress tests could force the banks to come clean about their balance-sheets and lead to the forced sale of assets into the government's toxic-asset programme. If a bank cannot raise the capital to offset its losses, it should be deemed insolvent and temporarily nationalised. Mr Geithner's proposal is part of a process that could lead to more certainty—even healing—in America's banking system. But only if he has the gumption to turn his half-plan into a whole one.

Economist.com OPINION LEADERS

The war in Afghanistan

Say you're staying, Mr President

Mar 26th 2009
From The Economist print edition

Barack Obama needs to act fast to dispel the idea that he is giving up on his “good war”

Getty Images

WHO would have believed, Barack Obama mused on television the other day, “that the least of my problems would be Iraq?” He should hold on to that thought. Iraq’s problems are far from over. But the fact is that a counter-insurgency campaign that looked almost completely unwinnable less than two years ago is now going well enough for America to begin to withdraw without leaving chaos behind. Now, as the president jets off for a series of meetings with America’s allies in Europe, it is Afghanistan that is starting to look unwinnable—and the Europeans, especially those in NATO (see article), want to know if he will fight on.

His answer to that question should be an emphatic yes that is heard loud and clear not only in Europe but in Afghanistan, Pakistan and the rest of Central Asia as well. This is not because the war is going well or because America or anyone else has a clear idea of how to win it. For a variety of reasons, including too few resources, a mudded strategy and the venality and incompetence of the elected government of Hamid Karzai, the Western effort is in deep trouble. The Taliban insurgency goes from strength to strength, aided immeasurably by the support and sanctuary the insurgents enjoy across the border in Pakistan, and by the chronic weakness of that country’s own feuding and shambolic government. It was entirely honest of Mr Obama to admit in a recent interview that America was “not winning” in Afghanistan, and right for him to order a strategic review from a former CIA official, Bruce Reidel, to avoid the danger of drift.

Lately, however, he has also talked of the need for an exit strategy, and this is a message he needs urgently to modify. Naturally, neither the West nor the Afghans want the Americans to stay indefinitely. But a lot of the people whose hearts and minds the West is trying to win over in Afghanistan will hedge their bets until they are sure the outsiders are staying long enough to be counted on. That’s the way it is with counter-insurgencies. A hint from Mr Obama that he had already lost the stomach for the “good war” he supported so strongly during his presidential campaign would cut the remaining ground from under the government in Kabul, embolden the Taliban and make it even harder for Europeans to keep on putting their soldiers at risk in what voters would see as a failing war.

Whatever tactical recommendations Mr Obama adopts from Mr Reidel’s review, he must therefore take four broad political messages to Europe. These are that Afghanistan is still worth fighting for, that a decent outcome is possible, that America intends to invest the time and resources needed, and that NATO’s European members should continue to help.

Why it is worth fighting

Six years ago a German defence minister, Peter Struck, said his own country's security was being defended in Afghanistan's Hindu Kush. It still is. America invaded Afghanistan because its Taliban government let it become the base from which Osama bin Laden and al-Qaeda planned their attacks not only on America but on many other places. Al-Qaeda has now been driven into Pakistan, but it would return re-energised the moment the insurgents regained power, which they could well do if NATO fled before building an Afghan government and army capable, like Iraq's, of standing on its own feet.

Some advocates of leaving say the presence of Western infidels in Afghanistan is so provocative that it makes Pakistan itself likelier to succumb to the jihadists. The opposite is true. America's bombing raids inside Pakistan probably are counterproductive, and should stop. But giving the jihadists another victory over another superpower would boost their ambitions to the skies, making it even harder for Pakistan to pacify its tribal regions. As for the claim that the Afghans themselves want the Westerners out right away, there is little evidence of this. The ability of jihadists with guns to control territory is no proof of popularity. Not long ago, remember, millions of Afghans voted for the country's present government and constitution, and for simple rights, such as that of girls to go to school.

In war, of course, victories do not come just by wishing for them. That is why NATO needs to fine-tune its campaign in all sorts of ways. Some of the new ideas look eminently sensible. These include recognising that Afghanistan and Pakistan are a "single theatre", enlisting help from neighbours (including Iran), ending the uncritical support George Bush gave Mr Karzai, handing a bigger share of combat missions over to a larger Afghan army and reviving the drive for political reconciliation that started after the invasion of 2001 but withered on the vine. However, no strategy will work unless Mr Obama makes it completely plain to both his allies and his enemies that he is not giving up. Victories may not come just by willing them, but prophecies of defeat are often self-fulfilling.

Emerging-market multinationals

Not so nano

Mar 26th 2009
From The Economist print edition

The financial crisis may have strengthened the hand of the developing world's emerging giants

Getty Images

THE world's cheapest car, the Tata Nano—launched this week in Mumbai in a burst of flashbulbs and national pride—has turned the spotlight once again on the developing world's emerging multinationals. From ArcelorMittal in steel to ZTE in telecoms, ambitious companies from India, China and other developing nations have marched onto the global stage in recent years, spooking the rich world's established multinationals with innovative products and bold acquisitions. The Nano is a symbol of the ambition of these emerging giants.

But much has changed since Tata Motors first took the wraps off the tiny car in January 2008. The financial crisis, collapsing stockmarkets and plunging commodity prices have hit companies in rich and poor countries alike. Tata Motors, which bought Jaguar Land Rover, a British premium carmaker, from Ford last year for $2.3 billion, now faces the difficulty of refinancing its debt, and was downgraded this week by Standard & Poor's (see article). Does this mean that the threat to established giants from emerging-market giants has receded?

Far from it. The crisis has strengthened the relative position of the emerging giants, for several reasons. First, as companies and consumers around the world cut costs and trade down, the emerging giants' low-cost production models, based on cheap local labour, provide even more of an advantage. Second, even though growth in developing countries has slowed, it has not vanished altogether, so the emerging giants can fall back on their domestic markets. Car sales have collapsed in the rich world, for example, but are still growing in many developing countries: they are expected to increase by 10% this year in China, for instance.

Third, many rich-country multinationals have become much more inward-looking as they struggle to cope with the recession, and are less able to invest to defend their market positions, providing opportunities for disruptive new entrants. Again, a good example is that of carmaking, where the convulsions of the established giants, and the switch to greener technologies, give newcomers an opening. Ratan Tata, the boss of the Tata Group, spoke this week of his ambitions to sell the Nano not just in Europe, starting in 2011, but eventually in America, too. The electric car made by BYD, a Chinese battery-maker that branched into carmaking a few years ago, was the talk of the Detroit motor show in January.

Furthermore, many cash-strapped multinationals in the rich world are now trying to sell bits of themselves to raise capital, giving buyers in the developing world a chance to pick up technology, brands and other assets, says Harold Sirkin of the Boston Consulting Group, whose book "Globality" charts the rise of the emerging giants. Two Chinese carmakers, Chery and Geely, are interested in buying Volvo

from Ford. Mahindra & Mahindra, an Indian maker of utility vehicles, is in the running to buy LDV, an ailing British truckmaker; there is also talk of a possible Chinese bid. Vale, Brazil's mining giant, recently picked up a clutch of assets from Rio Tinto, its debt-laden Anglo-Australian rival. And ZTE, a fast-growing Chinese telecoms-equipment company with customers in over 60 countries, has been mooted as a possible buyer of the handset division of Motorola, the ailing American firm that ZTE is on the verge of evicting from the industry's top five.

They're behind you

There are, of course, weak points among emerging-market giants. Some, including Tata Motors, overextended themselves when commodity prices were high and credit was easy to come by. Mexico's Cemex, the world's third-largest cement firm, is selling assets around the world as it struggles to meet its debt repayments. ArcelorMittal, the world's biggest steelmaker, which grew into a global giant from its roots in Indonesia, Trinidad and Mexico, launched a $1.5 billion convertible-bond issue this week to refinance some of its debt. But plenty of rich-world multinationals made the same mistakes and face similar problems, or worse.

The emerging giants of the developing world are still a rising force during the good times. The launch of the Nano serves to remind rich-world bosses that they still need to keep an eye on their rear-view mirrors.

On Barack Obama, legalising drugs, Kenya, Handel

Mar 26th 2009
From The Economist print edition

Quoting Barack Obama

SIR – I was disturbed to see that a quote from "The Audacity of Hope" was seemingly distorted to support the contention that Barack Obama does not value engagement with Europe (Lexington, March 14th). You said that President Obama's book includes a "reference to the idea that America should 'round up the United Kingdom and Togo' as supporters—and then do as it pleases." In fact, the passage in question makes precisely the opposite point and is worth quoting in full so that readers have the correct context:

> Once we get beyond matters of self-defence, though, I'm convinced that it will almost always be in our strategic interest to act multilaterally rather than unilaterally when we use force around the world. By this I do not mean that the UN Security Council—a body that in its structure and rules too often appears frozen in a cold war-era time warp—should have a veto over our actions. Nor do I mean that we round up the United Kingdom and Togo and then do as we please. Acting multilaterally means doing what George H.W. Bush and his team did in the first Gulf war—engaging in the hard diplomatic work of obtaining most of the world's support for our actions, and making sure our actions serve to further recognise international norms.

President Obama met Gordon Brown recently for a serious, substantive exchange about how the G20 countries can together restore confidence in the world economy. Hillary Clinton, on her first trip to Europe as secretary of state, and Joe Biden, the vice-president, during his two visits to Europe, have made it clear that the United States is committed to fully engaging with our European friends and allies on a full range of economic and security challenges. To suggest otherwise is incorrect, and to distort the president's words is unworthy of *The Economist*.

Richard LeBaron
Chargé d'affaires ad interim
United States Embassy
London

Drugs and legalisation

SIR – We read your leader and briefing on how prohibition has failed to halt the trade in illegal drugs ("How to stop the drug wars", March 7th). We agree with your assertion that a massive criminal market is an unintended consequence of controlling drugs. Indeed, the United Nations Office on Drugs and Crime has called attention to this issue in a recent report to the Commission on Narcotic Drugs. However, we reach a different conclusion to you and find that legalisation is not the solution.

Drugs are controlled because they are harmful, they are not harmful because they are controlled. Legalising the use of drugs would be tantamount to losing a portion of every generation to addiction. Choosing between public health and public security is a false dilemma. Governments should, and can, do both. To reduce supply, more resources are needed to eradicate poverty and not just illicit crops. To reduce demand, more attention should be placed on drug prevention and treatment.

To tackle drug-trafficking, states should use international agreements against organised crime and corruption. The fact that certain transactions are hard to control does not mean that they should be made legal. I doubt that *The Economist* would support the legalisation of paedophilia, human-trafficking or arms-smuggling as "the least bad solution".

Walter Kemp
Spokesman and speechwriter

United Nations Office on Drugs and Crime
Vienna

SIR – You are right to reiterate the case against drug prohibition, but regulation and taxation just will not work. Opium and cocaine are cheap to grow, high value and low weight, so the hundredfold mark-up to which you refer is almost wholly due to their illegality. Any conceivable tax would fall far short of equating to a hundredfold mark-up, and would in any case be emasculated by smuggling.

Analogies with alcohol and tobacco are misleading. Relative to drugs, these are bulky and low value, and neither face anything remotely corresponding to a hundredfold mark-up. Regulation and taxation are thus fairly straightforward. The only feasible alternative to prohibition is to take the international drug-trade into public ownership.

It is demand in developed countries that is driving this trade. Licensed growers should be directly linked to registered users. Such an approach could be phased, each country moving at its own pace. Over time, the market share of illicit drugs would be steadily squeezed and trafficker income and profits would drain away.

Jeremy Berkoff
London

SIR – Separating the markets for hard and soft drugs is critical. As long as cannabis distribution is controlled by organised criminals, consumers of the most popular illicit drug will continue to come into contact with sellers of addictive drugs. Cannabis should be taxed and regulated like alcohol, only without the ubiquitous advertising.

Robert Sharpe
Policy analyst
Common Sense for Drug Policy
Washington, DC

SIR – The evidence in support of your 20-year campaign in favour of legalising drugs has become ever more compelling. In 2000 I argued in your pages that the drug war had failed based on my experience in Colombia in the early 1990s (Letters, March 18th 2000). It is striking how much the costs of the drug war have mounted since then. In Colombia, despite improvements in security and $6 billion of American aid, cocaine production continues at roughly the same level and about 3,000 people still die every year because of cocaine-related conflict.

Many ministers and officials will admit in private that current policies have done much more harm than good but are not prepared to speak out because they see no point given entrenched American attitudes or hostile public-opinion. With the Obama administration showing a willingness to review both domestic and foreign policy this must be the moment to consider seriously the solution *The Economist* has so persistently proposed.

Sir Keith Morris
British ambassador to Colombia, 1990-94
London

SIR – You have given up far too soon on the war on drugs. It worked for Mao in defeating opium, after all. The strategy is simple: send all drug users to “re-education” camps, execute the dealers, and most importantly, do so within the context of an authoritarian and isolated society. A few more Patriot Acts, plus a healthy dose of protectionism, and we should be just about ready to emulate Mao’s success.

Adam Skory
Berkeley, California

The following letters on drugs appear online only

SIR – As a veteran of the war on drugs, with some 1,000 arrests under my belt, I have witnessed the utter futility of prohibition. There is no historic evidence that prohibition reduces drug use. Just about anyone who is going to do drugs uses them, regardless of their legal status. In fact, it is the notion of a “forbidden fruit” and prohibition-created profits that entice both young users and dealers. Youths report in federal surveys that it is easier for them to buy illegal drugs than beer or cigarettes.

Polls show that very few Americans would try heroin or cocaine if it were legalised tomorrow. There is no dam of potential drug users being held back by prohibition. Ending it would remove the violence in the same way that repealing the prohibition on alcohol did. This would be a pure win-win situation for everyone but drug dealers and terrorists.

Jack Cole
Director
Law Enforcement Against Prohibition
Medford, Massachusetts

SIR – Many illegal drugs, particularly stimulants like crack and ice, often induce violent psychosis in heavy users. Crack and ice are also hideously addictive, far beyond the imagination of well-meaning people whose opinions about drugs were shaped by smoking a few spliffs in the 1960s. Using a little willpower just does not cut it anymore. Four out of five people who try crack, even once, are enslaved to it for the rest of their miserable, stunted lives.

Medical science simply does not know how to help these unfortunates. The current drug war is a disaster, but any policy that increases availability still further will almost certainly lead to a catastrophic upsurge in random, drug-fuelled violence, as drug-gorging addicts lose their minds in a psychotic orgy of mass destruction.

Eric Worrall
Southampton

SIR – You are misguided in recommending that money saved from enforcing prohibition would be better spent treating addictions. Drug treatment does little more than enable drug use. In developed countries, rehab is the gateway to an expanding array of social-welfare and mental-health services that create disincentives for addicts to cut their consumption. Studies touting the effectiveness of drug treatment have little validity because they are based on self-reports.

Dr Michael Reznicek
Psychiatrist
Spokane, Washington

SIR – Any amount of funds designated for stopping drug- trafficking will never be enough. The higher investment in policing increases the price of drugs, delivering higher gains to the “narcos”. These market forces will always make investment in policing drugs insufficient.

Mexico needs to reform its law enforcement at all levels, from petty thieves to white-collar corruption. Nevertheless, America could show its true support by acknowledging its fair share of accountability in drug issues. Mexico should stop fighting the war on drugs on behalf of the United States. If America does not want a narco state as a neighbour and second-biggest trading partner, it should fight this war on its own soil.

Ignacio Gallo
Mexico City

SIR – An underestimated impediment to drug legalisation is the addiction of various governmental and law-enforcement agencies to the proceeds from properties seized in the quest to catch drug gangs. Illicit drugs are a great revenue stream for governments.

Ray Wilfinger
Cary, North Carolina

SIR – Your solution to the drug wars is not at all “messy”, but logical and correct. Ironically, on this side of the Atlantic, it is the free market, get-the-government-off-our-backs crowd that is crowing the loudest to keep drugs in the hands of the gangsters, criminals and warlords. Condemning someone to the joint for lighting up a joint won’t stop people from using drugs any more than preaching abstinence will stop people from engaging in sex.

Fred Bercovitch
San Diego

The following letter on Kenya appears online only

Tackling Kenyan corruption

SIR – Ivan Lewis's reaction to your review of Michela Wrong's book on Kenya, “It's Our Turn to Eat”, is tetchy. The last paragraph of his letter challenges you to offer alternative policies to those pursued by Britain's Department for International Development (Mr Lewis’s letter appeared online only on March 12th). Tempting, if you believed DfID would take serious notice.

Mr Lewis might have read the book before reacting to your review. It contains ideas. My suggestions would be: expose, campaign and isolate grossly corrupt leaders who have demonstrably damaged Kenya and its people’s interests and well-being; stand by the whistleblowers when things get tough; and stand on Jack Straw’s toes to clean up Britain’s own sleazy record of inactivity.

Sir Edward Clay
Former High Commissioner for the United Kingdom to Kenya
London

Handel’s handle

SIR – The first thing I learned in a musicology course given by Paul Henry Lang, a distinguished Handel scholar at Columbia University, was how to pronounce the great composer’s name correctly (“Georgian splendour”, March 21st). Omitting the umlaut in texts is bad enough, but forgivable if you don’t have a German keyboard on your computer. The universal practice of music teachers and radio presenters pronouncing it as “Handle” or “Hahndel” was considered sacrilege by Professor Lang. The proper pronunciation? “Hehndel”, through pursed lips, of course.

Les Dreyer
Retired violinist at the Metropolitan Opera orchestra
New York

Barack Obama's progress

Coming down to earth

Mar 26th 2009
From The Economist print edition

The president has had a bumpy ride in his first two months

Illustration by KAL

TWO months after his inauguration, Barack Obama can already point to some impressive achievements. He has passed a $787 billion stimulus bill—the biggest in American history—and outlined an ambitious agenda for reforming health care and education, tackling entitlements and pushing "green" energy. He has also delighted his admirers at home and abroad by beginning to reverse George Bush's policies on such controversial subjects as talking to Iran, global warming, the treatment of enemy combatants and stem-cell research.

Unfortunately, Mr Obama's critics can also point to a striking record of failures. A startling number of his nominees for senior positions have imploded. The upper ranks of the Treasury remain empty in the midst of the most serious recession since the 1930s. Warren Buffett, an early Obama-supporter and a man legendary for holding on to stocks that he has backed, thinks that the president is taking his eye off the ball. Andy Grove, a former head of Intel, describes the administration's performance as "ineffectual". Even the commentariat, which swooned over Mr Obama's campaign, is running out of patience.

Many of Mr Obama's achievements have a Potemkin quality. He signed a $410 billion spending bill that contains 8,570 earmarks (directing funds to specific projects), despite his pledge to reduce the practice. His budget rests on unrealistic assumptions about America's future economic growth and about the cost of his spending programmes. He throws out numbers like confetti: Peter Orszag, his usually impressive budget director, made a dismal job of explaining to Congress where Mr Obama intended to find the $634 billion "down payment" he promised for health-care reform.

Mr Obama's erratic performance is partly the result of the rollercoaster world he finds himself in. Few presidents have come to power with as much political capital. Mr Obama beat John McCain by seven points. His party has majorities of 39 seats in the House of Representatives and ten in the Senate. The administration can also draw on the brainpower and political muscle of a powerful network of liberal think-tanks and pressure-groups that were formed during the Bush years. But this understates his strength. His election represented a turning point in America's bitter racial history. It also possibly coincided with the end of a conservative era that began with Ronald Reagan's election in 1980.

At the same time Mr Obama confronts an unusually difficult set of challenges. America is in the grip of a recession that is crushing jobs and reducing demand at an alarming rate. Some of America's most famous financial institutions have collapsed. General Motors is on the verge of collapse. The

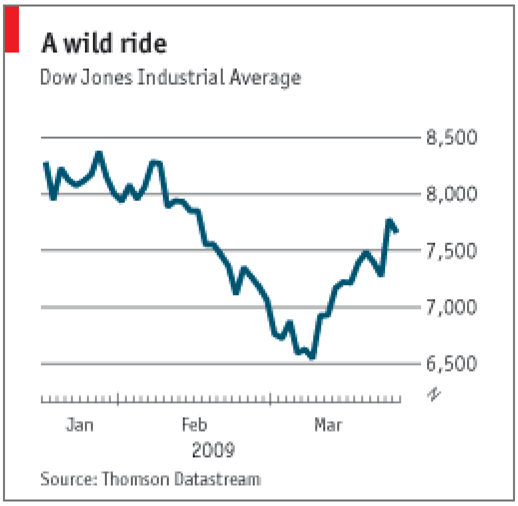
unemployment rate, which is already 8.1%, could hit double figures. The American political system is arguably more dysfunctional than ever, with the parties heavily polarised and the 24-hour-news cycle magnifying bad news.

All this means that Mr Obama's first two months in office are difficult to evaluate. But a few things seem pretty clear. This is a strikingly ambitious president: he wants to be "transformative" in more than just the sense of being the first black president. But so far his presidency has been vitiated by a combination of incompetence and a willingness to fall back on the very tactics that he denounced as a candidate. Indeed, his desire to be "transformative" may be contributing to his problems, distracting him from the economic crisis.

The pragmatic liberal

Mr Obama has already outlined the most ambitious agenda for transforming America since the Reagan revolution: proposing universal health care, expanding the role of the federal government in education, tackling global warming and reducing America's growing inequalities. This has ignited a fierce debate about his ideology. Is he an unreconstructed liberal who will provide the left's answer to Ronald Reagan? Or is he a New Democrat, as he himself claims? The answer is probably a mixture of the two. Mr Obama is a pragmatic liberal, more confident about big government than Bill Clinton's New Democrats, but less wedded to liberal solutions than many of the old lions in his party.

He has spent his career, apart from a year or so in business consultancy, in the non-profit sector, first as a community organiser and later as a rising politician. In his memoirs he often speaks disparagingly about the private sector. He draws some of his keenest support from trade unions and liberal pressure-groups. The most influential think-tank in Mr Obama's Washington, the training ground for many of his top appointees, is the Centre for American Progress, funded by liberal billionaires such as George Soros and Peter Lewis.



But the president also has a pragmatist's suspicion of ideology. Some of the most prominent figures in his administration are centrists. Kathleen Sebelius, his prospective health secretary, was a popular governor of Kansas, one of the country's most conservative states. Larry Summers, his chief economic adviser, is a famous gorer of liberal ones. Cass Sunstein, his regulation tsar, argues that the government should use market incentives to "nudge" people rather than bludgeoning them directly.

Mr Obama certainly plans to increase taxes on the rich—but only to their level during Mr Clinton's administration, which presided over the high-tech boom and a surge in the small-business sector. Mr Obama wants to reform the health-care sector. But he prefers to supplement the private system rather than replace it with a "single-payer" national health service; many of his supporters are business people crushed by the cost of health care. He wants to increase the role of the federal government in education. But he also speaks eloquently about introducing more merit pay and creating more charter schools. "The resources come with a bow tied around them that says 'reform'," argues his chief of staff, Rahm Emanuel. The administration's nervousness about old-fashioned liberalism has contributed to its hesitancy in dealing with the banking crisis. Rather than simply "nationalising" the weakest banks and taking over their bad debt, it has preferred to create an elaborate system of incentives for private investors.

If his domestic policy is a mix of pragmatism and liberal ambition, his foreign policy is a mixture of pragmatism and liberal caution. He has revised the legal regime governing al-Qaeda terrorists, put an end to brutal interrogations and promised to close down Guantánamo Bay, to the delight of the anti-war left. But otherwise his policy is characterised by a combination of realism and caution. Realism when dealing with other powers: he has signalled to the Chinese that he will not make a fuss over human rights, and to Arab rulers that he will take a more balanced approach to the Middle East. Caution when it comes to unwinding the "war on terror": he has rethought his campaign promise to withdraw America's troops from Iraq in 16 months, is increasing America's military presence in Afghanistan and is stepping up strikes into Pakistani territory.

Obamateur

The biggest surprise of Mr Obama's first two months has not been his policy preferences (most of which he advertised), but a certain lack of competence. The man who earned the sobriquet "No Drama Obama" for running such a disciplined campaign has, since coming to office, slipped on one banana skin after another.

He has lost a remarkable number of nominees: two potential commerce secretaries, Bill Richardson and Judd Gregg; a health secretary-cum-health-reform tsar, Tom Daschle; a chief performance officer, Nancy Killefer; and a head of the National Intelligence Council, Charles Freeman. This has clouded his administration's claims to ethical purity, not least because two of the nominees, Mr Daschle and Mr Killefer, had tax problems. It has also contributed to the sense of chaos.

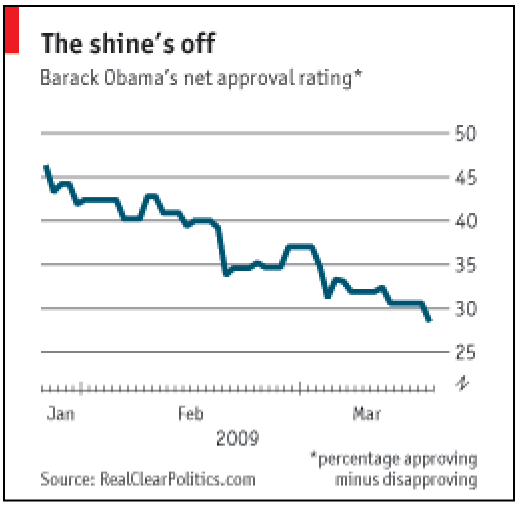
Mr Obama is paying a heavy price for securing the nomination of his treasury secretary, Tim Geithner. Mr Geithner's tax problems meant that the White House had to be super-scrupulous in vetting other Treasury figures. He was uncertain in his early public appearances and slow to produce a plan for sorting out America's banks. Mr Obama's confidence in him may at last be paying off; his plan for buying "toxic assets", released this week, sent the markets soaring, he gave a confident performance before Congress, and the senior ranks of his department are now beginning to fill up. But it would have been nice not to have waited so long for the Treasury to start firing on all cylinders.

The Obama administration has also made a long list of smaller mistakes. Gordon Brown, the British prime minister, ought to be one of Mr Obama's closest allies in fixing the global financial system, for both ideological and historical reasons. But Mr Obama badly mishandled his meeting with Mr Brown, giving him no more than half an hour and presenting him with a gift of a job lot of DVDs which do not even work in Britain. The G20 meeting in London is the first get-together of all the big industrial countries since Mr Obama came to office. But the administration's preparations have been cursory.

Many of Mr Obama's mistakes stem from a single strategic miscalculation: he is trying to do too much too quickly. The financial crisis would overwhelm any administration, let alone one that is still trying to fill key jobs. But Mr Obama has chosen this moment to tackle a collection of problems, such as health care and environmental regulation, that have defeated much less overburdened administrations.

The administration advances two justifications for this, one substantive (you can't fix America's economy without also dealing with its long-term problems) and one political ("Never waste a good crisis"). The American economy will certainly be stronger if the country can tame its health-care costs. But health-care inflation has nothing to do with the financial crisis. The problem with never wasting a good crisis is that you alienate potential supporters, particularly Republicans, and risk overloading the system. "Mr Obama likes to say that presidents can do more than one thing at a time," remarks Peggy Noonan, a Reagan speech writer, "but in fact modern presidents are lucky to do one thing at a time, never mind two." It is worth remembering that Mr Obama's idol, Franklin Roosevelt, introduced a broad reform agenda only after he had gained credit for tackling the banking crisis.

There is plenty of evidence that the administration is much too thinly stretched. David Smick, a consultant, argues that Mr Obama has a three-pronged approach to the crisis—"delay, delay, delay". He announces grand plans only to stint on the details. He promises budgetary discipline only to put off the hard decisions until later. The president pops up with a speech excoriating AIG bonuses ("I am angry") but fails to explain the thinking behind his economic programme. Mr Buffett has given voice to widespread worries about the administration's failure to prioritise. "Job one is to win the war, the economic war. Job two is to win the economic war—and job three. And you can't expect people to unite behind you if you're trying to jam a whole bunch of things down their throat."



Mr Obama's decision to announce a big-spending budget just when he is spending billions to rescue the financial system has also reinforced worries about America's fiscal situation. The Congressional Budget Office estimates that some of Mr Obama's social policies will be more expensive than the White House claims, and that the economy will grow more slowly. The deficit will be $9.3 trillion

over the next decade, averaging 5.3% of GDP a year. Mr Orszag concedes that such a number would be unsustainable.

Politics-as-usual

Almost as striking as the contrast between Mr Obama's soaring ambition and his frequent incompetence is that between his promise to elevate politics and his willingness to continue with politics-as-usual. All presidents run for office promising to change Washington and end up becoming its captives. But few have reversed themselves as quickly as the Hope-meister.

Take bipartisanship. It is true that Mr Obama has made some bipartisan appointments, keeping Robert Gates at the Pentagon and giving transport to Ray LaHood. He made concessions in stimulus negotiations, and has invited a few Republicans over for cocktails. But his bipartisanship has been mostly of the George Bush variety: he is quite happy for his opponents to endorse his policies.

He has surrounded himself with hardened Democratic "pols" such as Rahm Emanuel, his chief of staff, and David Axelrod, his campaign strategist-turned-senior adviser. He has filled the top levels of his administration almost exclusively with people from the world of government: a former senator (at State), two former government officials (Treasury and Defence), two former governors (Health and Homeland Security). David Ignatius of the *Washington Post* points out that this administration is "as thin on business experience as a Hyde Park book club". This not only limits the range of advice he can hear and the experience he can draw on. It also makes it even more difficult to prevent panic on Wall Street or Main Street.

Illustration by KAL

Mr Obama is now enthusiastically engaged in something that he foreswore as a candidate: the art of the permanent campaign. Senior White House advisers meet every Wednesday night to plot political strategy. Mr Obama's former campaign manager, David Plouffe, is e-mailing millions of Obama supporters to encourage them to put pressure on their congressional representatives to pass the budget. Mr Obama gives a striking share of his set piece speeches in swing states. The Obama team has repeatedly suggested that the Republicans are a party of "no" who owe fealty to Rush Limbaugh, a polarising talk-radio host. In other words, Mr Obama is squandering his political capital doing exactly what Mr Clinton did so often in his presidency: justifying his mistakes, trying to get the better of the 24-hour news cycle, and demonising opponents.

Mr Obama's decision to restart the campaign engine is a sign of his administration's troubles. It is desperate to distract attention from the fact that it has broken some of its promises. It is determined to manage the anger stirred up by the huge bonuses paid to various AIG honchos. It is also desperate to make sure that the Republican Party cannot make too much political capital from the chaos at 1600 Pennsylvania Avenue. The result is a downward spiral: the more Mr Obama fails, the more he resorts to the permanent campaign, and the more he resorts to the permanent campaign, the more he becomes just like any other president.

To add to the impression of business as usual, Mr Obama is continuing the long-standing trend of amassing ever more power in the White House. He has appointed a clutch of powerful White House-based tsars to oversee Cabinet offices. These tsars have no accountability to anybody but Mr Obama. They have every incentive to engage in empire building and turf wars. For example, Jim Jones, the national security adviser, is redefining the role of the NSC to oversee everything from traditional foreign

policy to climate change. American liberals complained bitterly about the Bush administration's politicisation of intelligence. But Mr Obama has arguably taken this politicisation to new heights by appointing Leon Panetta, a Democratic loyalist with no roots in the intelligence world, to oversee the CIA.

The president cannot yet be described as a failure. It is still early days. America's political system, unlike Britain's elective dictatorship, is designed to be frustrating. Power is divided. Congress uses its position to inject bloat into legislation. Presidents ricochet between success and failure. At this point in the election cycle Mr Clinton was embroiled in the gays-in-the-military fiasco and John Kennedy was heading towards the Bay of Pigs.

The confirmation process has been getting ever longer and more traumatic. Every recent president has seen presidential nominees flame out in disgrace. Polarisation has intensified. The recession raises questions that go to the heart of the ideological division between the parties: should you resort to Keynesian stimulus or Schumpeterian creative destruction? Should you bail out people who have borrowed too much money or let them sink? Even a president who had worked hard at bipartisanship might have been undone by these divisions. Mr Obama's approval ratings remain in the 60s, despite the pressure of a global crisis, and the Republicans remain unpopular and rudderless.

During the election campaign Mr Obama was frequently slow to respond to crises. Then, just when his supporters began to despair and his opponents began to smell blood, he would pull himself together and rise to the occasion. Mr Obama has been slow to get the full measure of the presidency. He has failed to establish firm priorities, and has all too often let events dictate his agenda. All in all, his performance has looked shaky. But at last this week there were signs, when he revealed his bank bail-out plan, that he is starting to do what he did so often during the campaign: justifying the enormous faith that has been put in him.

Correction: Drugs

Mar 26th 2009
From The Economist print edition

Our briefing on drugs (March 7th) mistakenly spelled out DARE (Drug Abuse Resistance Education) as Drug Avoidance Resistance Education—a logical nonsense. Our apologies. This has been corrected online.

Populism

Will there be blood?

Mar 26th 2009 | WASHINGTON, DC
From The Economist print edition

The revival of American populism is partly synthetic, but mostly real

Reuters

A WEEK or so ago America was seized by a spasm of fury over the bonuses paid to executives at AIG, a troubled insurance company. Across the country Americans were enraged that people who had helped to cause the financial meltdown were being rewarded for their incompetence. And Washington responded in kind.

Congressmen queued up before the television cameras to tell everybody how upset they were. Larry Summers, the president's chief economic adviser, described the bonuses as "outrageous". Even Barack Obama tried to drop his ultra-cool persona to say how "angry" he was. The House voted overwhelmingly to impose a 90% tax on such bonuses.

The media responded to the storm of outrage by producing a stream of articles on American populism—the political disposition that damns established institutions, from Wall Street to Washington, and tries to return power to "the people". *Newsweek* devoted almost an entire issue to the subject.

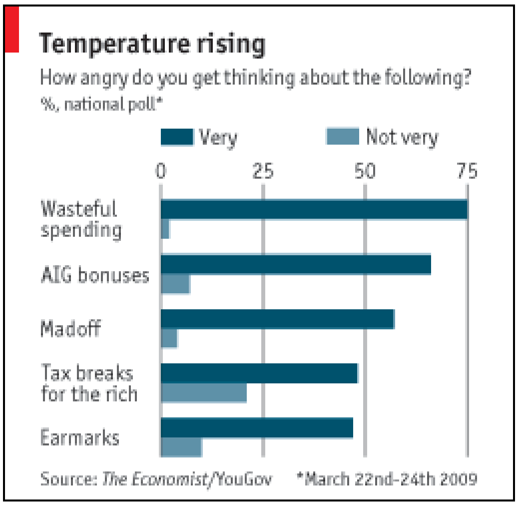
But no sooner was the ink dry on these articles than the populist storm seemed to blow itself out. Many of the journalists who had been fanning the flames of anger attended a white-tie Gridiron Dinner in Washington on March 21st to perform silly song-and-dance routines. Wall Street rallied two days later when the treasury secretary, Tim Geithner, published his plan to tackle toxic assets held by banks. Steny Hoyer, the House majority leader, suggests that bonus legislation "may not be necessary" now that 15 of the top 20 "bonus babies" at AIG have agreed to give their bonuses back.

Was the fuss over AIG a sign of a new populist mood in America? Or was it just a storm in a teacup? It is hard to answer this question in a country in which anger is a form of entertainment and where the political parties have turned partisanship into a fine art. Television personalities such as Bill O'Reilly are always angry about something or other. Many of the politicians who proclaimed their outrage at the "malefactors of great wealth" are delighted to take campaign contributions from the very same malefactors.

But, for all that, there are good reasons for taking the resurgence of populism seriously. One is the breadth of the discontent in the country. Left-wingers complain that Mr Obama is selling out his

supporters in order to rescue irresponsible financial institutions. Right-wingers worry that he is using taxpayers' money to save people from the consequences of their own profligacy. This fear has plenty of resonance outside the world of political enthusiasts: a recent Harris poll shows that 85% of Americans believe that big companies have too much influence on politicians and policymakers.

Another factor is the size of the slump. America has lost almost 2m jobs in the past three months. The number of job openings is down 31% from a year ago. Consumer confidence is falling on all fronts. Mortgage delinquencies are at a record high. The future of attempts to stimulate the global economy is also in jeopardy: European leaders have implied that they will oppose pressure from Americans and Chinese to produce their own stimulus programme at the forthcoming G20 meeting.



America may be witnessing the return of an old-fashioned version of populism, driven by economic anxiety and directed at economic interests. The people who gave the name to "populism" in the late 19th and early 20th centuries were worried about a prolonged agricultural depression and furious at the vested interests in Wall Street and Washington who, they thought, were responsible for that depression. Populists accused the elites of turning America into a land of "tramps and millionaires".

This brand of populism went underground during the boom years, but Franklin Roosevelt revived it during the Depression. In one of his most passionate speeches, in 1936, he attacked the "economic royalists" of big business and the Republican Party.

In the 1960s economic populism was trumped by cultural populism. The Republican Party championed the interests of the "silent majority" against bra-burning feminists, civil-rights activists and effete liberals who were more interested in protecting the rights of criminals than preserving law and order. The Democrats made desultory attempts to revive economic populism in 2000 and in 2004: Al Gore campaigned for "the people against the powerful" and John Kerry denounced outsourcing companies. But this proved to be no match for the Republicans' cultural populism. Now economic populism is returning to the heart of American politics.

This economic populism is made particularly potent by the long-term decline of faith in American institutions. The General Social Survey has been polling Americans about their confidence in major institutions (among other things) since 1972. The preliminary data for 2008 show a marked drop in confidence in every American institution since 2000 except military ones and education. The proportion of people expressing "a great deal of confidence" fell from 30% in 2000 to 16% in 2008 for big business, from 30% to 19% for banks, from 29% to 20% for organised religion, from 14% to 11% for the executive branch and from 13% to 11% for Congress. It was up, to 52%, for the armed services. These figures are the stuff that nasty movements are made of.

Populism poses serious problems for both political parties, not least because the very institutions which they spend their lives squabbling over are some of the least respected in the country, just above television and the press. The danger for Mr Obama and the ruling Democrats is that the administration is relying heavily on private investors and Wall Street banks to implement its various rescue plans. This inevitably means rewarding some of the people who were responsible for the crisis. The president hopes that his budget will channel destructive anger into support for his policies. But he could also find his administration blown off-course or even swept aside by popular outrage.

New York state politics

Taking the battle upstate

Mar 26th 2009 | HALFMOON, NEW YORK
From The Economist print edition

A special election is a referendum on Barack Obama's economic efforts

AP

Can Tedisco gore Obama?

FEW people outside New York, or many inside it, knew much about the state's 20th congressional district until David Paterson, the governor, appointed Kirsten Gillibrand, its representative, to fill the Senate vacancy left by Hillary Clinton when she was made secretary of state. Yet the special election to fill Ms Gillibrand's empty seat has drawn national attention. It is the first since Barack Obama took office, so many see the race as a test of how Americans view his efforts. It is also the first election since Michael Steele took the helm at the Republican National Committee (RNC).

Jim Tedisco, the Republican candidate and the minority leader in the state assembly, has been a familiar face in upstate New York politics since the early 1980s. At first glance, he has the advantage. The district is overwhelmingly Republican, with 196,000 registered Republicans to 125,000 Democrats. It voted for George Bush junior twice. Until Ms Gillibrand, a fairly conservative Democrat, won the seat in 2006, it had been held by Republicans since 1993.

Scott Murphy, Mr Tedisco's Democratic rival, is a Midwesterner who moved to the area only three years ago. He has spent most of his working life as a venture capitalist in Manhattan. Unlike many of his potential constituents, he was an adult before he milked a cow. The sprawling district, 7,200 square miles (18,600 square km) of it, is mostly rural, full of dairy farms and with its fair share of gun-toting deer-hunters.

Just a few weeks ago, polls showed Mr Tedisco with a double-digit lead over Mr Murphy. That gap has narrowed considerably; the two are now practically neck-and-neck.

Meanwhile the RNC's Mr Steele is on the offensive. He has sent money to New York, as well as one of his staffers to help with strategy. He has visited the district twice. Conservative political-action committees, such as "Our Country Deserves Better", have launched waves of advertising against Mr Murphy and his support for the stimulus package.

National issues, rather than local ones, are dominating the campaigns. "AIG and the stimulus have swallowed this race," observes David Wasserman of the *Cook Political Report*, a non-partisan newsletter. Mr Tedisco says he would not have voted for the stimulus package, while Mr Murphy says it will bring 76,000 badly needed jobs to upstate New York. Mr Tedisco vows to fight to hold the people who created the fiscal crisis accountable. Mr Murphy has called for executive salary caps.

Voters will go to the polls on March 31st. Turnout is always very low in special elections, so it will be difficult for either party to use the outcome as a barometer of the public mood. But they will try.

The budget

Ammunition for the critics

Mar 26th 2009
From The Economist print edition

A grimmer economic outlook from Congress's scorekeeper

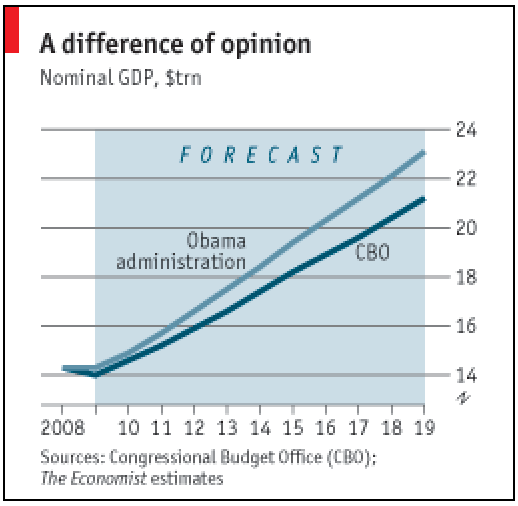
BY THE standards that obtain in the blogosphere, the duelling posts of Peter Orszag and Doug Elmendorf are pretty tame stuff. But they are still exciting, because Mr Orszag runs Barack Obama's budget office and Mr Elmendorf heads Congress's fiscal watchdog, the Congressional Budget Office (CBO). The debate over the budget hinges heavily on whose economic forecasts are more accurate.

On February 26th Mr Obama released an ambitious budget plan that boosted spending, cut taxes on most workers and raised them on the rich, and projected a cumulative budget deficit over the next ten years of $7 trillion. Immediately, critics cried that the deficit would be a lot larger but for an over-optimistic economic forecast. They were given ammunition on March 20th when the CBO released its own analysis, which put the cumulative deficit at $9.3 trillion, largely because of weaker projected economic growth. That figure would represent a near-doubling of the present federal debt.

Mr Orszag swiftly responded on his blog. First he noted that all budget forecasts are full of uncertainty, including the CBO's—which, as he pointed out, he used to head before moving to his current job. Then he noted that a big reason for the CBO's higher deficit numbers was a view of the economy's long-term potential growth rate that is lower than most private-sector forecasters assume—too much pessimism, in other words. Irrelevant, Mr Elmendorf suggested on his own blog on March 23rd: the level of GDP matters more than its growth rate in determining the level of the deficit and on that front the CBO is more optimistic than the private sector.

One thing not in dispute is that, since the White House prepared its forecast, the outlook for this year has become a lot worse. (That said, some recent data, such as higher house sales in February, suggest that the crisis may be stabilising.) That is one reason why the CBO's near-term numbers are grimmer. In the longer term, the CBO thinks potential growth will be lower because of slower labour-force growth and because a bigger government debt will crowd out private investment.

The CBO also expects low inflation. That results in nominal GDP falling 1.5% this year by its calculations, the largest such drop since 1938. Between 2016 and 2019 the CBO thinks nominal GDP will on average be almost 8%, or $2 trillion, a year less than the White House's estimate, resulting in much less tax revenue (see chart). At the same time, the CBO has calculated that the cost of bailing out the financial system will be $200 billion more than it originally assumed.



The net result is not pretty. The White House thinks the deficit will fall to 3% of GDP in 2013, then roughly stay there; the CBO thinks it will only fall to 4%, and then climb back to almost 6% by 2019. The White House sees publicly held debt stabilising at 67% of GDP; the CBO sees it climbing steadily to an alarming 82%.

Whoever is right, the CBO's numbers are a problem for Mr Obama. Republicans have seized on them to buttress their message that Mr Obama is spending the country into oblivion. No matter that their competing proposal of a spending freeze is economic heresy during a recession.

Cowboy poetry

Laureates of the lariat

Mar 26th 2009 | SCOTTSDALE, ARIZONA
From The Economist print edition

Cowboys are gradually disappearing. But they are not going quietly

MIKE DUNN stands in the corner of a vast hangar filled with purveyors of all manner of Western goods, from log cabins to cowhide-covered lavatory seats. He is dressed in the modern cowboy uniform of hat, shirt and deep blue Wrangler jeans, and is reciting a poem. It is about the time when his uncle Jack was visited by a young government inspector, who foolishly ignored the command to stay out of the bull pasture. At one point Mr Dunn rhymes “doin” with “interferin”. Welcome to the phenomenon of cowboy poetry.

Twenty-five years ago a group of folklorists gathered in Elko, a remote Nevada town, to read old cowboy poems and songs. That sparked a revival that has spread like fire through mustard grass. Cowboypoetry.com, a website, tallies some 200 gatherings this year in America and Canada. Some are stand-alone poetry readings. Others, like the event in Scottsdale, are attached to Western festivals or rodeos. Margo Metegrano, who runs the site, reckons she is rounding up only about a quarter of all the events that take place.

The rise of the cowboy poet coincides with the virtual disappearance from popular culture of another Western figure. Hollywood used to churn out dozens of films a year about square-jawed gunslingers. It now produces almost none, and there is currently no new Western series to be found on broadcast television or basic cable. But the departure of the heroic cowboy has opened some room for gentler, more reflective voices. Although it is growing, their audience is smaller: unlike Western films, cowboy poetry is mostly produced by Westerners, for Westerners.

It is no less romantic for that. Cowboy poems are filled with horses, campfires, strong coffee and strong women—what writer Wally McRae calls “things of intrinsic worth”. In keeping with their subject matter, cowboy poets tend to write in a traditional, rhyming style. They echo folk songs or Rudyard Kipling’s poems more than modern poetry.

Romantic and old-fashioned it may be, but cowboy poetry speaks to present problems. Before the housing collapse froze people in place, traditional cowboy haunts such as Arizona and Nevada were turning pasture into suburbs at an extraordinary clip. As Rob Lang of Virginia Tech has noted, the interior West is now the most urbanised region in America, largely because there is so little water outside the cities. The northern part of Scottsdale, where the cowboys gathered last week, is a landscape of monster houses, golf courses and drive-through pharmacies.

Cowboy poetry is a defensive reaction to all this. It is a way of insisting that ranching has not entirely gone, and that the people who do it are, as the poet John Dofflemyer puts it, “not oafs”. Strangely, the people who have displaced the cowboys seem eager to hear that message. There were plenty of urbanites at the Festival of the West, instantly recognisable because they were wearing the wrong kind of jeans. Hal Cannon, who runs the Western Folklife Centre, says the first few gatherings in Elko were dominated by ranchers. Now about 40% of attendees come from the cities.

So do some of the poets. Mr Dunn hails from a ranching family and owns a cow-and-calf operation in south-east Arizona. But he lives in the suburban city of Mesa and pays the bills by working as an experimental flight-testing engineer for Boeing. Even if the cowboys disappear entirely, their verses will probably stick around.

Power from chocolate

The mighty bean

Mar 26th 2009 | PORTSMOUTH, NEW HAMPSHIRE
From The Economist print edition

An unusual energy source gets a try-out

EARLIER this month engineers at Public Service of New Hampshire, the state's largest electric utility, successfully tested a novel fuel mixture for one of its electricity-generating boilers: coal tempered with cocoa-bean shells. Hedonists have long rhapsodised about the seductive power of chocolate; now cocoa power may light homes as well.

The 36,000 pounds (16,400kg) of bean shells used in the test came to the plant from Europe by way of Lindt USA, a subsidiary of Lindt & Sprüngli in Switzerland, which operates a truffle-manufacturing plant in nearby Stratham. At the moment, the plant imports large blocks of chocolate from across the Atlantic to make into its "Lindor" truffles, but according to Peter Breed, the engineering manager at Stratham, the operation expects to begin processing its own cocoa beans into chocolate in the first quarter of 2010.

Hence the test. If all goes well, and if the test results are verified to the state government's satisfaction by a third-party auditor, which should happen within a few weeks, the plant will begin trucking mountains of used and otherwise useless (but free) cocoa-bean shells to the plant early next year. This, apparently, will be a first in America.

The shells, which have a thermal value similar to that of wood, will be mixed with the coal in a 1-to-33 ratio. An important part of the test was to see whether the power company's coal-grinding machinery could also grind cocoa-bean shells to the required talcum-like powdery fineness; the machinery performed admirably.

State officials, who had previously approved the utility's conversion of another boiler to burn wood, watched the testing procedure closely. Negotiating the necessary permits for the test took nearly two years, incredible though that might seem. Observers and neighbours, meanwhile, did a lot of sniffing. But to everyone's disappointment, coal and cocoa shells burned together do not fill the air with the sweet smell of chocolate.

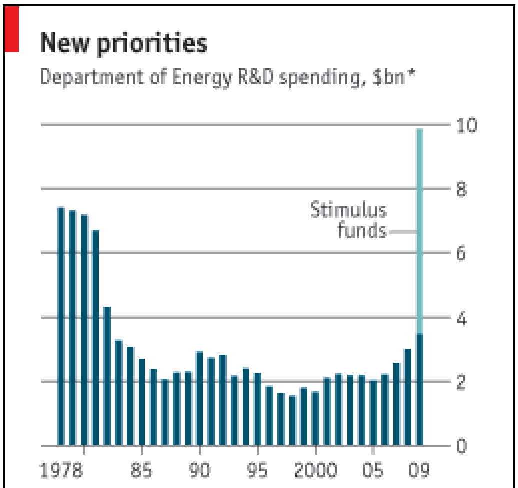
Energy research

Energiser money

Mar 26th 2009 | KNOXVILLE, TENNESSEE
From The Economist print edition

American innovation faces its biggest test for decades

IN THE dark hours of the second world war, scientists of the Manhattan Project worked secretly in the hills of Tennessee. This month, tucked in those same hills, scientists at Oak Ridge National Laboratory sat listening to their new mission. Thomas Mason, Oak Ridge's director, stood beside a slide show, letting its contents sink in. The budget for the Department of Energy (DoE), a chart showed, was $24.2 billion in 2008. This year Congress gave the DoE $38.7 billion in the stimulus package and another $27 billion in appropriations. Mr Mason's main message was simple: "We've really got to deliver."



Source: K.S. Gallagher of Harvard University's Kennedy School, updated March 2009 by the Office of Science and Technology Policy *2008 dollars

Politicians have been making noises about energy independence and climate change for some time. Federal spending on research and development, however, has remained far below the levels of the 1970s (see chart). Now rhetoric is finally being matched by cash. Within the DoE's budget, Congress has appropriated $7.8 billion for energy R&D, 18% more than last year, and the stimulus provided about $8 billion. On March 23rd President Barack Obama and Steven Chu, the energy secretary, explained how some of the money would be spent, with money for labs—a new building at Oak Ridge will house researchers for solar batteries and superconducting transmission lines—as well as support for scientists exploring everything from carbon sequestration to hydrogen. Spending money, however, is easy. Results require hard work.

The Manhattan Project yielded the atomic bomb; the Apollo programme sent a man to the moon. Mr Obama's goal to cut emissions by 80% by 2050 is at least as ambitious. Meeting this deadline will require not just a price on carbon and the wide adoption of existing technology, but inventions that are still just a glimmer in someone's eye. Making matters more complex, new innovations must be deployed by companies and used by the public. The atomic bomb and the space shuttle had the government as their only customer.

Two reports published in February questioned the DoE's ability to meet the task at hand without reform. The Brookings Institution, a think-tank, claimed that the DoE is too fragmented, its feet too stuck in the nuclear era, its labs too siloed to move quickly from research to commercialisation. Harvard University's Kennedy School argued that the DoE needs to forge better links between basic science, applied research and deployment.

Promising efforts, however, are under way. Jeff Wadsworth, chief executive of Battelle, talks of new work at Oak Ridge, which his company manages with the University of Tennessee. Oak Ridge may have an inescapable nuclear legacy, with new buildings sprouting beside contaminated ones, but the lab has evolved. It conducts a wide range of research, working on energy sources that are old—scientists are trying to recycle spent nuclear fuel—as well as new. The BioEnergy Science Centre, one of the DoE's more innovative programmes, is designed to emulate a start-up and develop cellulosic ethanol, tapping the expertise of labs, academia and industry. To court technology companies, Oak Ridge is planning an office park at the heart of its campus—speeding deployment and, officials hope, replacing a building once used to study Japanese corpses from Hiroshima.

Mr Chu himself is working to link basic and applied science, both within the DoE's conventional channels and beyond them. The stimulus gives $400m to ARPA-E, a new programme modelled after one at the Department of Defence, to conduct speculative research. On March 23rd Mr Chu announced that $277m would go to Energy Frontier Research Centres, with teams at universities and labs working in many different fields, from photovoltaics to nuclear energy.

Mark Muro of Brookings suggests that the DoE should go further, awarding grants to regional partnerships of labs, universities, states, industry and entrepreneurs. The proposal may be included when Mr Obama reveals the details of his budget next month. But the next big thing could equally well come from a lab—Lawrence Livermore National Laboratory, in California, hopes to develop a laser-powered fusion plant—or from a team of researchers and entrepreneurs. The more diverse the approach, the better.

Homelessness

Shelter from the storm

Mar 26th 2009 | NEW YORK
From The Economist print edition

Homelessness is rising, but the government is trying to help

MANY come to the centre for homeless families in the Bronx with everything they own—a toddler in one hand, a suitcase in the other. New York is seeing a rising number of homeless families because of the recession. In February nearly 40% more applied for shelter in New York than had done a year earlier.

It is the same story all across the country. San Francisco had to open its winter shelter two months early last year. Louisville, Kentucky, reported an increase of more than 58% in family homelessness in 2008. Although national data on homelessness in 2008 will not become available for several months, most agree that there are “staggering increases”, according to Ellen Bassuk, executive director of the National Centre on Family Homelessness.

Some cities, like Boston, have adopted a desperate solution to put a roof over people’s heads: motels. Entire families are placed in one room at these “welfare motels”, which are often far away from schools and grocery stores. Geography is not their only drawback. They are an expensive way of housing people, costing governments as much as $100 per room each night. And many motels do not have caseworkers assigned to them, so people sent there do not get the same support they would have received in shelters.

To help both the homeless and cash-strapped local governments, the federal government has made $1.5 billion available through the stimulus bill, passed in February. The money, which doubles the federal funds available to fight homelessness, is being allocated to cities and states to try to stop the problem occurring. The money will help families pay rent and utility bills, as well as increasing “case-management units” to help people find jobs and get rehoused. The money should be rolled out in the next few months, and cities and states receiving it have been urged to spend it quickly.

Advocates for the homeless are pleased. The National Alliance to End Homelessness estimated at first that an extra 1.5m people could become homeless in this recession; it now thinks the numbers will be lower thanks to the government.

But not everyone is dancing in the streets. Larry Meredith, director of the Department of Health and Human Services in Marin County, California, objects that the new surge of funding is for prevention only, and will not go towards maintaining existing services for those who are already homeless. According to Mr Meredith, a shelter that provides beds for about 60 people in Marin will probably soon close because of lack of funding. Its residents will lose yet another home, of sorts.

Public health

Out of the mouths of babes

Mar 26th 2009 | ST LOUIS
From The Economist print edition

What thousands of milk teeth reveal about radiation

THEY were locked away in an old ammunition bunker near St Louis, in dozens of cardboard boxes. Each was in its own manilla envelope, with an index card identifying the donor. These 85,000 baby teeth were collected in the late 1950s and early 1960s from children in the St Louis area to study the effects of radioactive fallout in the environment.

The fallout came from hundreds of above-ground nuclear tests in America and other parts of the world. The radioactive isotope Strontium-90, one of the by-products of the bombs, spread into the atmosphere, fell onto the land, was ingested by dairy cows and passed into the milk supply. Strontium-90, like calcium, was concentrated in children's teeth in detectable amounts.

In 1958 scientists in St Louis began a campaign to collect baby teeth to study the link between above-ground testing and human exposure. The undisputed link between the tests and a radioactive element in baby teeth provided much of the impetus for the 1963 Test Ban Treaty, which outlawed above-ground nuclear weapons-testing.

The rediscovery of the 85,000 samples, about a quarter of the total collected, has spurred a new effort to study the link between early childhood exposure and health problems in later life. There is already some evidence that 1950s children in St Louis grew into adults with a higher-than-average rate of cancer. Now researchers at the Radiation and Public Health Project, based in Brooklyn, are attempting to find more than 6,000 of the teeth donors to track their health problems or, in some cases, their premature deaths.

The link between radioactive fallout and subsequent health problems is an international issue. British ex-servicemen exposed to radiation in bomb tests in the south Pacific in the 1950s recently sought compensation in a London court for cancer, infertility and other medical problems. The British government's position in the case is that, even if there is a link, too much time has passed to make a claim. In this, at least, the British and American brass still think as one.

Lexington

A tale of two barons

Mar 26th 2009
From The Economist print edition

Barney Frank is having a very good crisis—and Chris Dodd a very bad one

Illustration by KAL

BARNEY FRANK and Chris Dodd are as close to the centre of power in Washington as members of the legislative branch can get. Mr Frank is chairman of the House Committee on Financial Services; Mr Dodd is chairman of the equivalent body in the Senate, the Banking, Housing and Urban Affairs Committee. In other words, they are at the very heart of the financial-cum-political storm that is sweeping across America and the world. This gives them the ability to make, break or cunningly alter legislation with gigantic financial consequences. But it is also turning them into the targets of popular fury.

Angry peasants have no shortage of manure to throw at the two men. They have both received generous campaign contributions from the financial industries that they are there to regulate. And they have both enjoyed unusually close relations with the mortgage giants that helped to produce the current meltdown, Fannie Mae and Freddie Mac. Mr Frank resisted attempts by the Bush administration to shift regulation of the two bodies to the Treasury on the ground that they were “not facing any kind of financial crisis”. He also had a lengthy romantic relationship with one of Fannie Mae’s senior executives, Herb Moses.

But Mr Frank and Mr Dodd are handling their new-found prominence in very different ways. Mr Frank is going from strength to strength—infusing his committee with energy and impressing even Republicans with his command of detail. Mr Dodd is withering.

Mr Frank has always had a voluble fan club. The first member of Congress to come out of the closet voluntarily, he has become the unofficial congressman for gay America. He has had his witticisms collected in a book (“Frank Talk”). He is also the subject of a forthcoming biography, “Barney Frank: the Story of America’s only Left-handed, Gay, Jewish Congressman”.

But his talents have never been put to better use than they are today. He has been a fixture on the financial services committee since 1981, mastering arcane detail about everything from securities to insurance. He has been at the centre of the financial crisis from the start: Nancy Pelosi, the speaker of the House of Representatives, made him the Democrats’ chief negotiator with the Bush administration back when Lehman Brothers collapsed.

Mr Frank has also accumulated a long record of brokering deals between free-market Republicans and pro-regulation liberals—experience that is standing him in good stead when it comes to balancing the conflicting demands of the pragmatists in the Treasury and the populists in Congress. He claims to be a

strong supporter of free markets, and has provided plenty of evidence that this is more than talk. He has refused to sponsor legislation regulating hedge funds, backed many free-trade agreements, and has voted against farm subsidies.

But his heart is on the left of his party. He claims that what America needs is a “grand bargain” between liberals and conservatives, with conservatives accepting the case for an increased minimum wage and higher taxes on the rich and the left embracing freeish markets. Mr Frank’s mastery of his financial brief gives him a once-in-a-lifetime chance to advance his bargain.

Dodd on arrival?

Mr Dodd is a much more conventional politician than Mr Frank. He is one of five “hereditary” senators whose fathers were also in the Senate. He took his chances of becoming president sufficiently seriously to move his family from Connecticut to Iowa in 2007. But so far his performance during the financial crisis has been desultory. Even given the different rules governing the House and the Senate—the Senate works by compromise whereas in the House the majority party prevails—he has been lethargic. On television he looks apologetic and overwhelmed.

Mr Dodd is widely blamed for allowing AIG’s executives to make off with their bonuses. This is unfair. He actually added an amendment to the stimulus bill that applied strict limits to the compensation arrangements of firms that were receiving federal bail-out money. He watered down his amendment only at the Treasury’s request, a fact that the Treasury has admitted. But the senator’s vulnerabilities extend well beyond the bonus scandal.

Mr Dodd has long been a friend of the financial-services industry. He has received more than $13m for his various electoral campaigns from people with connections with the sector. His presidential campaign was heavily financed by the financial sector. He received $104,000 from AIG, including $69,300 from 33 employees of its disastrous financial-products division.

Mr Dodd is also plagued by a couple of personal financial scandals. In the early 2000s he received favourable treatment on two mortgages from Countrywide Financial, a mortgage company that was for years the biggest single customer of Fannie Mae (he described his treatment as “nothing more than enhanced customer service”). Back in the 1990s he also got a good deal on a house in Ireland. Mr Dodd has admitted that his partner in buying the house had ties to Edward Downe, a former principal of Bear Stearns who was later convicted of insider trading and subsequently pardoned by Bill Clinton. Mr Dodd was an energetic lobbyist for pardoning Mr Downe.

This has turned Mr Dodd into the country’s most conspicuous congressional target. The local Republican Party in Connecticut is salivating at the prospect of capturing a Senate seat in a state where Barack Obama won 61% of the vote. Thirty-year incumbents are remarkably hard to defeat—particularly when they have such generous friends in the financial industry. But if America’s revolting peasants are going to take the head of a congressional baron, then Mr Dodd’s looks as good a prize as any.

Lexington now writes a blog, which is open for comment at Economist.com/blogs/lexington

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THE AMERICAS

Argentina's election

The Kirchners make a dash for it

Mar 26th 2009 | BUENOS AIRES
From The Economist print edition

Hoping it's not the exit

Illustration by Claudio Munoz

AS ARGENTINA'S president in 2004, Néstor Kirchner pushed a bill through Congress that pinned all future federal elections on the fourth Sunday of October. The intention was that incumbents should not benefit from holding them at their political convenience. Five years on, his successor—his wife, Cristina Fernández de Kirchner—is meddling with the law to bring forward this year's mid-term elections to June. The "first gentleman" himself will probably lead their Peronist party's list of candidates in Buenos Aires province. Having passed in the lower house, the president's measure was due to get the Senate's approval on March 26th.

Ms Fernández used the world financial crisis as an excuse for bringing forward the election. In truth it is a shrewd, if shameless, ploy by a power couple who know that the value of their brand is tanking. Since she took office in December 2007, Ms Fernández's popularity has sunk from 56% to 30%, according to Poliarquía, a pollster. Much of this decline was inevitable because the economy was bound to slow after five years of breakneck growth, fuelled by soaring agricultural prices and her husband's expansionary policies. But Ms Fernández exacerbated her misfortune with bad decisions. Above all, she chose to raise taxes on farm exports a year ago, which has led to big protests. As a result, the Peronist block in Congress, solid under Mr Kirchner, has frayed, cutting Ms Fernández's majorities in both houses.

The economy is one reason she wants the elections sooner. Poverty has been creeping up since early 2007 and the country has probably just tipped into a recession that is likely to deepen during the year. Ms Fernández cannot run a counter-cyclical policy, because lavish government spending has left her without the money to pay for it. Neither does she have a righteous fiscal history and a credible national-statistics office behind her, both necessary for a loan from the IMF, were she inclined to beg for one, which she is not. Voters would thus have been likely to punish her allies harder in the fourth quarter than they will be in the second.

There are other factors, besides the economy, in the president's calculation. Advancing the date on which half the deputies and a third of the senators must reapply for their jobs should stem the flow of former friends across the floors of both houses. That is because Argentina's proportional-voting system encourages party discipline as elections draw near. Legislators will now care less about their constituents'

worries and more about pleasing the party officials who choose candidates' positions on the candidate lists.

Advancing the ballot date brings the Kirchners other benefits. One is that election news has temporarily snatched some limelight from the disgruntled farmers who, after eight months of tenuous peace with the administration, have grown rowdy again. This week they refused to sell grain and livestock, and blocked roads to stop them being transported, to try to make Congress cut export taxes. Ms Fernández has offered to share the proceeds of these taxes—which are as high as 35% on some farm products—with provincial governors, to keep them loyal. Another benefit of early congressional voting is that it will take place before at least two prominent governors' elections, which the Peronists' opponents are likely to win.

Most important, altering the electoral calendar gives anti-Kirchner groups both inside and outside the ruling party less time to get organised. For years the Kirchners' greatest asset has been the disarray of their rivals, who are scattered among several parties and have proved unable to unite around a leader. But these rivals have lately been growing stronger. One potential threat is a nascent alliance between Mauricio Macri, the mayor of Buenos Aires city, and two dissident Peronists: Felipe Solá, a well-regarded former governor and agriculture minister; and Francisco de Narváez, a rich businessman with a substantial electoral machine.

Mr de Narváez may lead this new alliance's electoral list in populous Buenos Aires province, perhaps going head-to-head with Mr Kirchner. The province contains the capital's sprawling, lower-middle-class suburbs—Peronism's heartland—where the Kirchners have strong patronage networks and Ms Fernández remains popular. If the vote were held today, Mr Kirchner would win easily. He should still have a fair chance of victory in June, thereby allowing his wife to stumble on. But with the new opposition alliance arousing some interest, the first couple are taking a gamble. If Mr Kirchner loses, it may spell the beginning of the end for Kirchnerism.

Venezuela's budget cuts

Hard landing

Mar 26th 2009 | CARACAS
From The Economist print edition

President Chávez's spending cuts will bite deeper than he admits

THE revolution is bust. After five years of rapid growth, based on oil-fuelled public spending, Hugo Chávez's Venezuela has run into the buffers. The president insists that the country is shielded by "21st-century socialism" from what is essentially a crisis of capitalism. But between the lines of the modest adjustment package he announced on March 21st can be glimpsed the true gravity of the situation.

AFP

I'm only cutting a little bit, honest

Venezuela's original 2009 budget was based on oil at $60 a barrel. That has now been revised down to a more realistic $40, although independent analysts reckon the country is producing only about two-thirds of the 3m barrels a day the government claims. Budgeted spending is to be cut by 6.7%. But if compared with actual spending in 2008, the nominal cut is around 18%. When inflation is taken into account it is over a third.

The budget deficit will be narrowed by increasing VAT from 9% to 12%. But that still leaves a gap of over $10 billion to be filled by borrowing. Since foreign credit is virtually unobtainable, this will require a 180% rise in the government's internal debt.

Mr Chávez says welfare programmes will not be cut. He announced a two-part, 20% increase in the minimum wage. "Be assured," he declared, "there is no crisis that can detain Venezuela's march towards socialism, independence and greatness!" However, few believe the government's claim that it will hold inflation below 20%: last year's first forecast of 11% was revised upwards three times and still ended up short of the 31.9% eventually recorded. Even the minority of the workforce who benefit from an increase in the minimum wage are thus likely to suffer a painful cut in purchasing power.

Perhaps the most striking part of the package is what was left unsaid. Even though the official exchange rate is more than 60% above the free-market rate, there is to be no devaluation for now, although unspecified "monetary and exchange" measures are promised. And the big question that remains unanswered is the whereabouts of all the money the government claimed to have saved for a rainy day.

The finance minister, Alí Rodríguez, cites the $57 billion transferred in recent years into the government's National Development Fund. However, according to his ministry's figures, there was only $6 billion left in the fund at the end of December, shortly before the government raided the central bank's reserves for $12 billion to top it up. What has happened to that money since remains unclear.

Had Mr Chávez not in effect scrapped the stabilisation fund (known as the FIEM), which he inherited from the previous government, he would now have, by some calculations, over $100 billion to spend his way out of the crisis. For all the talk of continuing the socialist revolution, says a former central-bank official, José Guerra, the government is banking on just one thing: "Every day they light a candle to the recovery of the capitalist economy."

Brazil

Governors under fire

Mar 26th 2009 | SÃO PAULO
From The Economist print edition

A rash of impeachment cases against state governors is probably a good sign

WHEN Rod Blagojevich, the governor of Illinois, was impeached earlier this year, his blustering defence and determined jogging attracted attention around the world. The impeaching of state governors in Brazil gets less attention, but there is suddenly an awful lot of it going on. Between 1999—when a law was passed to stop incumbents from turning their administrations into political machines for their re-election—and the end of 2008, two state governors had their mandates revoked by Brazil's Supreme Electoral Court (TSE). Already this year, however, two more governors have been removed for campaign skulduggery. Cases against a further five are pending. So, by the end of the year, the court could have ejected seven of the country's 27 governors.

This may be construed either as a terrible assault by the judiciary on democratic politics, or a welcome sign that long-flouted rules are at last being enforced. It certainly throws up some odd results. In both the cases where incumbents have been removed, the candidate who came second in the 2006 elections is now installed as state governor. But each in turn may face allegations of foul play that could result in the court removing them too. If so, calls for fresh elections would grow.

For more than a decade after Brazil returned to democracy in 1985, the TSE concentrated on making sure that votes were cast and counted properly. It oversaw the introduction of electronic-voting machines, which have been a great success. Brazil has avoided the long waits to vote and disputed results that have marred America's last few presidential elections.

Now, says João Augusto de Castro Neves, a political consultant, the court is trying to improve the quality of the vote. It is helped in this, says David Fleischer, a politics professor at the University of Brasília, by the fact that it has earned a credibility that prevents its decisions from being easily challenged. Furthermore, a tacit pact that used to operate among senior politicians, in which defeated candidates refrained from bringing fraud cases against winners, seems to have broken down, giving the courts more cases to act on.

Of the seven accused governors, five have been charged with abusing their office to ensure their election. The accusations range from distributing free glasses (of the reading rather than the drinking sort) to short-sighted voters just before polling day, to straightforward bribing of voters with their own money.

All but one of the governors accused comes from the north or north-east of the country, where politics is often reminiscent of Tammany Hall, 19th-century New York's legendarily rotten political machine. In Alagoas state, for example, the local electoral court says vote-buying is so widespread that voters sometimes lodge complaints when politicians do not pay up after an election. Many voters in the north and north-east are illiterate, and depend for news on radio and television stations that are owned by politicians. And there is a mighty spoils system. When the electoral court made José Maranhão governor of Paraíba earlier this year, his first act was to replace 6,000 public servants with his own supporters.

However, the dominance of local politicians was already weakening before the electoral courts got tough. The defeat in the 2006 governor's race in Bahia of the Magalhães family, which has one of the north-east's strongest political machines, is the brightest bit of evidence for this. The TSE's new assertiveness suggests that the judges are now trying to give this trend a push, even if the results are sometimes awkward. In Maranhão, for example, the court has installed Roseana Sarney as governor. Ms Sarney belongs to a local political dynasty that owns the state's dominant television and radio stations. Her presidential bid in 2002 was derailed by the discovery of half a million dollars'-worth of banknotes at her husband's office.

Since the introduction of stricter rules for incumbents, several hundred mayors have had their mandates

revoked. The pursuit of governors is a logical next step. Still, the TSE needs to tread gently. It has already sought to make the law in two areas: preventing candidates from switching parties shortly after their election and trying to prevent parties from making different alliances at municipal, state and federal level. It should probably stick to enforcing the existing rules instead. If it succeeds, candidates may think more carefully before trying to buy votes. Brazil already sets a good example to other developing countries in running relatively clean and orderly elections. If its courts continue to raise standards, the benefits could be felt beyond its own borders.

Canada's indigenous peoples

A policy that is outdated, expensive and unworkable

Mar 26th 2009 | OTTAWA AND VANCOUVER
From The Economist print edition

Why reforming Canada's unpopular laws on indigenous rights is so hard

WITH its vineyard, golf course, resort and spa, the Osoyoos reserve in British Columbia does not fit the usual picture of misery associated with Canada's 600-odd Indian bands. Its successful businesses were built under the constraints of the Indian Act, a 19th-century law governing every aspect of reserve life, from land use to the two-year tenure of chiefs. Clarence Louie, the BlackBerry-wielding chief of the 460-member Osoyoos band, says the lease negotiations required five times as much time and money as comparable off-reserve businesses because final approval rests with bureaucrats in Ottawa.

Osoyoos Indian Band

Chief Louie of the Osoyoos: making the best of a flawed system

Surely that is reason enough to want rid of legislation whose origins go back to when the thrust of British colonial policy was to assimilate the Indians? No, says Mr Louie: "Natives hate the Indian Act, but at the same time, do you trust government to replace it?" he asks. "With what?"

Every Canadian federal government has faced this question since the first one took office in 1867, taking over a patchwork of reserves and treaties negotiated under British rule. In the absence of a convincing answer that satisfied both governments and governed, Canada has opted for incremental change. The result is a system that is increasingly outdated, expensive and unworkable (a fate Canada shares with other postcolonial societies like Australia).

There have been attempts at sweeping change, such as a 1969 push for total assimilation and a 2002 bill which among other things sought to "Westernise" the governance of reserves with rules for elections and secret ballots. But all failed, often amid overwhelming opposition from chiefs.

Even a hint of change causes controversy, as Chuck Strahl, the federal minister of Indian affairs, discovered this month when leaked documents suggested the minority Conservative government planned to accomplish by stealth what the previous Liberal government tried to do in 2002. Mr Strahl has been trying ever since to persuade Indian chiefs, and the army of lawyers, consultants and bureaucrats with a vested interest in the current system, that he is only reviewing programmes representing about C$300m ($245m), a tiny fraction of his department's budget.

The government, says Mr Strahl, is trying to be pragmatic, seeking things that can be done "in bite-sized pieces". These include its creation of a tribunal to hear a backlog of disputes about treaty implementation, the apology offered last year for abuses aboriginal children suffered in residential schools, and the creation of a related truth and reconciliation commission (which still lacks commissioners).

This incremental approach contrasts sharply with the sweeping proposals announced this month by British Columbia's aboriginal-relations minister. By some interpretations, the plans, drawn up in secret with indigenous leaders, would allow Indian groups—which claim almost the entire province as their traditional territory—to gain vast chunks of land without proving their claims in court; and give them a veto over natural-resources developments. Such were the howls of protest that greeted the proposed bill that British Columbia's premier, Gordon Campbell, who faces the voters in a May 12th provincial election, hastily postponed it.

Not even Indian chiefs themselves can agree on what a new system of aboriginal rights should look like. Paul Chartrand, a former member of the Royal Commission on Aboriginal Peoples, says progress may be delayed until the next generation of better-educated and more assertive Indians take charge. "There are a lot of bright young people in university and they are looking at all of this very carefully," he says. One of them, Ethan Baptiste, a postgraduate studying aboriginal governance, ran against Chief Louie in the Osoyoos Indian band's election last month. Mr Baptiste promised accountability and wider consultation among band members, whereas Chief Louie ran on economic development and jobs. Chief Louie, who has learnt how to navigate a flawed system, won his tenth consecutive term. But Mr Baptiste plans to run again in two years.

Correction: Brazil's banks

Mar 26th 2009
From The Economist print edition

Our article last week on Brazil’s banks incorrectly gave the official Selic interest rate as 11.5%. It is 11.25%. Sorry. This error was corrected online.

Economist.com WORLD ASIA

Afghanistan

Reflecting on the Taliban

Mar 26th 2009 | KABUL
From The Economist print edition

Westerners are thinking about talking to the Taliban. It won't be easy

Magnum

IN A recent interview with the *New York Times*, President Barack Obama argued that "part of the success in Iraq involved reaching out to people that we would consider to be Islamic fundamentalists but who were willing to work with us," and suggested "there may be some comparable opportunities in Afghanistan and in the Pakistani region." Amid the various reviews of Western policy in Afghanistan now under way (see article), one theme has been constant: if a military solution to the insurgency is unlikely, it may be necessary to talk to the insurgents. But is that really possible? And are there "moderate" Taliban who would be willing to talk to the NATO-led alliance?

The answer to the second question is yes, although one would hardly call them moderates. It is true that, since 2001, the leadership of the Taliban based in Quetta, in Pakistan, has maintained links with al-Qaeda. The two organisations provide some military support to one another and many Taliban fighters express admiration for Osama bin Laden. However, there are startlingly few foreign fighters in Afghanistan, and the Taliban do not go out of their way to recruit them. As Zabiullah Mujahed, a Taliban spokesman, told your correspondent, "all mujahideen who come to Afghanistan to fight have to accept the principles and rules and regulations of the Emirate. They can fight on the side of Taliban but they cannot give orders. They have to receive orders. None of the foreign fighters are allowed to be commanders."

Moreover, for most Taliban fighters, the ideology of global *jihad* is less important than other things: Pushtun nationalism; opposition to the Western invasion; desire to defend conservative Muslim values deemed to be under attack; and a raft of local grievances, tribal frictions, inter-ethnic conflicts and competition for power and resources. Most analysts think that the irreconcilable ideological component of the Taliban remains in the minority.

What is not so clear is the answer to the first question: how does one go about engaging with the Taliban? So far, the Western aim has been to defeat them; little thought has been given to coming to terms with them. Taliban representatives were not invited to the Bonn conference of 2001, which was supposed to lay the foundations for an Afghan political settlement. (Many analysts have argued that that was a mistake.) Since then, other Afghans have used their positions in power to marginalise many who might otherwise have been brought into the political process. The result has been that whole sections of the populace in the Pushtun south feel alienated, a problem sometimes compounded by the clodhopping tactics of NATO-led forces.

A measure of the problem is the outcome of a formal programme of reconciliation set up under an Afghan government commission in 2005. Only 12 of 142 UN-listed Taliban leaders have sought reconciliation this way. Those who have come to terms, says Michael Semple, a Western analyst, have done so entirely through informal processes—using sponsors within the government or trusted ties of tribe and kinship.

There is some hope of change. The striking thing about the insurgency now is how decentralised it has become, especially compared with the ostensibly monolithic Taliban government that existed until 2001. The growing influence of local networks of commanders, such as the Haqqanis and various Pakistani Taliban groups, has undermined the ability of the Pakistan-based high command to control its own movement. Economic mayhem, which has increased insurgents' earnings from drugs, banditry and kidnapping, has also freed them from the need to pay dues to the leadership in Quetta. That may make it somewhat easier to peel local Taliban away from the high command, using the informal contacts that have worked best so far.

However, something similar will be possible on a nationwide scale only if the insurgents give up their hopes of military victory and conclude that they cannot exhaust the West's will to fight on. At the moment, they have not begun to think this way. Indeed, perversely but understandably, talk of engaging the Taliban encourages them to think they can outlast the West. That is why, for all the current rhetoric about talking to the Taliban, the most likely outcome in the short term is more hard fighting, led by expanding numbers of American forces and a larger Afghan army, before there is a successful attempt by NATO to engage parts of the Taliban in a real political process.

Afghanistan

Further into Taliban country

Mar 26th 2009
From The Economist print edition

America prepares to step up its military effort in Afghanistan

"WE'RE going south. Saddle up." With these words America's vice-president, Joe Biden, told NATO representatives earlier this month to get ready to redouble their effort to defeat the Taliban in southern Afghanistan. Barack Obama has already ordered 17,000 more troops to Afghanistan. And after an exhaustive series of reviews, he is due to approve a new strategy in the coming days that will be discussed at a "big tent" conference on Afghanistan in The Hague on March 31st, and at the NATO summit on April 3rd-4th (see article).

Candidate Obama said he wanted to end the war in Iraq so he could concentrate on winning the one in Afghanistan. President Obama, though, plays down expectations of what can be achieved. In an interview with CBS television's "60 Minutes", Mr Obama said his priority would be "making sure that al-Qaeda cannot attack the US homeland and US interests and our allies". There was no talk of building democracy or of ensuring that Afghan girls go to school.

He said there had to be a "comprehensive strategy"—which would include the economy, government institutions and diplomatic efforts in Pakistan—but there also had to be an exit strategy. "There's got to be a sense that this is not perpetual drift," he said. Mr Obama may feel the need to reassure Americans that he is not planning an indefinite war. The risk is that he thereby encourages the Taliban to think he is in a hurry to get out.

At the heart of the strategy is the idea of treating both sides of the Afghanistan-Pakistan border as a "single theatre". For all the extra military effort that is likely to be devoted to Afghanistan, Richard Holbrooke, America's special envoy to the "Af-Pak" region, thinks the real source of the problem lies in Pakistan. The Taliban, he told NATO ambassadors, were only the "outer rim" of the global jihadist movement. But America's ability to influence events in Pakistan directly is limited. Mr Holbrooke said American troops would not cross the border as that was a "red line" (though American drones periodically shoot at targets in Pakistan).

America wants to broaden the campaign by involving regional powers. Iran is among 90-odd delegations that have been invited to the big conference in The Hague to build up international support.

Those privy to the review say its centrepiece will be a commitment to increase the size of the Afghan security forces. The army is due to grow from 80,000 to 134,000 by 2011, and some of the proposals speak of expanding it to 250,000. The police, too, would be boosted. The cost will certainly run into billions of dollars. But this is probably cheaper than continuing to fight the Taliban with Western troops.

That said, there may well be a further boost in American troops—commanders had asked for 13,000 more than announced by Mr Obama—but this may have to wait until America can secure additional contributions from allies. "Obama wants the US effort to leverage greater contributions from others, not to replace them," says one NATO insider.

But America is likely to get little more than penny-packets from allies. Poland, for instance, recently announced an extra 400 troops. The Obama administration has decided pragmatically not to demand big new troop contributions to avoid an early failure. Instead it is pushing Europeans and others to help pay some of the extra costs and to step up civilian efforts. France has suggested sending European gendarmes to help train the Afghan police but the European Union has struggled to find the 400 trainers it had promised.

How to handle President Hamid Karzai remains a conundrum. Many American officials now regard him as ineffective but worry about creating a vacuum if they seek to remove him. Mr Karzai, who is running for re-election in August, seems happy to stoke a degree of anti-Americanism. The latest reinforcements, he said recently, were "seven years too late".

Japan's embarrassed opposition

Money politics, continued

Mar 26th 2009 | TOKYO
From The Economist print edition

Both main political parties are now mired in scandal and ineptitude

Reuters

The two faces of Ozawa

THOUGH his political secretary had just been indicted for allegedly handling illegal company donations, a tearful Ichiro Ozawa vowed to stay on this week as the head of Japan's opposition. The 66-year-old would, he promised, carry out his "lifetime dream and last task" of toppling the Liberal Democratic Party (LDP) from a half-century of almost unbroken power. Until the indictment of Takanori Okubo, at least, Mr Ozawa and his Democratic Party of Japan (DPJ) looked certain to sweep the LDP-led coalition away in the election that must be held by September.

Mr Okubo may be about to confess to taking ¥35m ($355,000) in slush money from Nishimatsu, a building company, between 2003 and 2006. If so, he could bring Mr Ozawa under suspicion, too. In Japan, politicians and bureaucrats, not governing parties, have the power to dispense favours such as public-works contracts. Mr Ozawa, though he is not in government, is the most powerful baron in Iwate prefecture, in the north-east of Japan's main island of Honshu.

He declares that he is shocked that anyone should think of suspecting him. The Tokyo prosecutors have not dared question him and Mr Ozawa may well not be prosecuted. Yet, says Yoshihiko Noda, a DPJ colleague, that is not the point. For a party trying to present voters with a clear alternative to the benighted government of Taro Aso, the prime minister, Mr Ozawa must be above suspicion.

And so the pact with the devil that many in the DPJ knew they were making when choosing Mr Ozawa as their leader in 2006 comes back to haunt them at an excruciating moment. The party wants to offer voters, especially urban ones, a vision of modern, clean government driven by sound policies. But, as a party of neophytes, they turned to Mr Ozawa, a heavyweight who first made his name as a brilliant operator within the LDP. By the end of the 1980s Mr Ozawa had shot to the top of that party as a young secretary-general. When he had made enough enemies there, he stormed out in 1993. In a succession of parties, he has ever since vowed to bring the LDP down, arguing for a reformed politics that his autocratic style suggests he is unlikely to provide. The Nishimatsu scandal is a reminder that Mr Ozawa has always been at the nexus of money and power that holds sway in Japan, especially in its rural regions. He was taken under the wing of that paragon of post-war corruption, Kakuei Takanaka, a prime minister eventually brought down for taking bribes from Lockheed.

Despite scandal, the autocrat still dominates the DPJ. The party's executive committee did not even grill him about the Nishimatsu story, politely waiting to hear whether he deigned to continue as party leader or not. Yet many DPJ politicians want him to go, though they do not say so openly. Opinion polls suggest that two thirds of voters agree. If public disapproval hardens, critics will be emboldened to speak out. Katsuya Okada, a moderniser, would be Mr Ozawa's likeliest replacement, though he led the party to defeat at the last general election.

A change of leadership might not be the end of Mr Ozawa, though. Whatever happens, his knowledge of the LDP and its tactics might prove invaluable to the DPJ were it to win office. From a lesser position in the government or the party, Mr Ozawa might conceivably wield greater clout than the gentle Mr Okada. That is how he operated with weak prime ministers in the LDP. For now, in a piece of pure cynicism, he has called for a ban on all company donations and put Mr Okada, who really does care about money politics, in charge of drawing up proposals. For some in the DPJ, this is one act of cynicism too far. Ordinary Japanese, increasingly disillusioned with their country's politics, may think so too.

Economist.com WORLD ASIA

Nepal under Maoism

War without bloodshed

Mar 26th 2009 | KATHMANDU
From The Economist print edition

Troubles of the peace for the Maoist government

Eyevine

Prachanda run ragged

NEPAL'S Maoist prime minister, Pushpa Kamal Dahal, or "Prachanda" (fierce), recently said that running a country was harder than running a guerrilla war. He should not have been surprised. The Maoist-led coalition government was formed after the ex-guerrillas pulled off a stunning election victory last April, just two years after they tramped in from the jungle. It faced three giant tasks: to bring better government to one of South Asia's poorest countries; to help sustain a peace process that followed a bitter, decade-long struggle; and to preside over the writing of a new constitution. Achieving all this, within the 30-month term allotted to a government, was bound to be difficult. Yet there is now a growing fear that failure—in a country that has seen civil war, a royal coup, the abolition of the monarchy, huge protests and an ethnically based rebellion in recent years—may spark a fresh crisis before long.

On its first task, the government has done passably well. With a few able ministers, it has made a better fist of administration than its shambolic predecessor, headed by the main opposition, the Nepali Congress party. The Maoist finance minister, Baburam Bhattarai, promised lots of handouts for the poor. But by making it easier for people to pay income tax, and threatening retribution to those who will not, he has also, he says, boosted the government's revenues by 38%. If this has not endeared the Maoists to Kathmandu's well-heeled tax-dodgers, the ex-guerrillas do not care. "Resolutely unclubable", in the phrase of the International Crisis Group, a think-tank, the Maoists rose on the back of popular resentment against Kathmandu's grip on the nation's power and wealth.

On the second task, encouraging peace, the news is less good. In Kathmandu on March 22nd, the UN's high commissioner for human rights, Navi Pillay, declared that without justice for the victims of Nepal's war, in which 13,000 died, the country's fragile peace might be doomed. There is as yet no prospect of such justice. The war's murders and rapes were carried out by two forces that remain at loggerheads: the Maoists' 24,000-strong People's Liberation Army, currently corralled under UN supervision, and the national army.

Under the terms of a 2006 peace accord between the Maoists and the main political parties, the Maoist fighters were to be taken into the army, or found other jobs. The army, which backed Nepal's deposed king, Gyanendra, in a 2005 power-grab, was also to be reformed. None of this has been done. In private, politicians and some army officers agree that a few thousand Maoist foot-soldiers will have to be recruited into the army, and some Maoist commanders given accelerated officer training. Yet the army chief, General Rookmangud Katwal, who hates Maoists, is reluctant to concur. And the Maoists seem unwilling to disband their forces.

This is unsustainable. On March 15th the Maoist defence minister refused to extend the service of eight brigadier-generals, as General Katwal had asked him to. The Maoists were retaliating against General Katwal's earlier refusal to abandon an army recruitment drive, as the government and UN had said he should. Might the army take over? "Let's hope that situation doesn't arise," says a senior officer. It may not, at least without tacit support from India, and that seems unlikely.

Alas, the Maoists' third task, presiding over the writing of a new constitution by Nepal's elected assembly, promises to be the most difficult. Little progress has been made, because of incompetence, political jockeying and fundamental disagreements. Most contentious is the issue of federalism. All

the main parties have vowed to support a new federal Nepal, but few, if any, consider this practical or desirable. The root of the problem is, again, widespread resentment of rich Kathmandu and its pampered elite. Yet few regions outside the Kathmandu valley generate much wealth and, even if politically possible, the sort of provincial structures that many Nepalis now expect may be unaffordable.

The issue is already explosive. After a 2006 insurrection in the southern Terai region by the Madhesi ethnic group, all the main parties have pandered to regional sentiments. This has encouraged more uprisings. This month members of another ethnic group, the Tharu, in the western part of the Terai, launched a ruinous two-week blockade of roads across the country. They objected to their classification by the Maoists as Madhesi, whom the Tharu consider interlopers from India. Nepal’s troubles are far from over.

China and Tibet

Rejoice, damn you

Mar 26th 2009 | BEIJING
From The Economist print edition

China prepares to celebrate a dangerous anniversary

IT'S official: "Tibet has moved from darkness to light, poverty to affluence, dictatorship to democracy and seclusion to opening up." So proclaims the notice at an exhibition in Beijing marking the 50th anniversary of Tibet's "democratic reforms". To celebrate, officials in Tibet have designated March 28th Serf Liberation Day. Lest anyone not share the mood of rejoicing, security will be tightened, dissidents kept behind bars and foreigners firmly steered away from the region.

With grim determination the authorities are trying to manufacture joy. Floral displays bedeck parts of Lhasa. The official media are filled with stories of happy Tibetans. In Beijing, the Tibet exhibition aims to show how the region has flourished under Communist rule after "centuries of slavery and suppression". Pride of place goes to a diorama showing former serfs merrily chucking "feudal documents" into the fire.

But just in case, back in Lhasa, armed police are still patrolling the streets after an outbreak of rioting in March last year. Security forces are also on full alert across the Tibetan plateau amid fears that Tibetans may stage their own commemorations. Many associate March 1959 not with liberation but with Tibet's failed uprising against China and the flight of the Dalai Lama to India. Dozens of Tibetan monks have been detained in Ragya, a remote town in neighbouring Qinghai Province, after violent protests there on March 21st triggered by the disappearance of a colleague who had raised a pro-independence flag.

As the anniversary approaches, China is in no mood to take chances. Alarmed by last year's widespread unrest in Tibetan-inhabited areas, the government is waging offensives on all fronts. Chinese pressure prompted the South African government to deny a visa to the Dalai Lama, who had been due to take part in a conference of fellow Nobel peace prize-winners on March 27th in Johannesburg. The organisers—South Africa's football authorities—responded by postponing the event indefinitely.

YouTube may also be a victim. Access to it has been blocked in China since shortly after the Tibetan government-in-exile released video footage (denounced as a lie by China) purporting to show Tibetan protesters being beaten by Chinese police. No such slur is permitted in Beijing. The cause of human rights in Tibet, says an exhibition brochure, has made "remarkable progress".

Economist.com WORLD ASIA

Nepal's royal palace

Versailles in green nylon

Mar 26th 2009 | KATHMANDU
From The Economist print edition

The ancient house of Shah had dodgy ideas on soft furnishings

THE stuffed tigers have seen better days. The big dynastic portraits, of double-chinned Nepali princes and their fair-skinned consorts, are catching dust. But the Narayanhiti Palace, Kathmandu's recently-vacated royal residence, is less remarkable for its faded splendour than for its dreadful modern design.

Completed in 1969, on the site of an older palace, it is built in concrete and marble, with acres of laminated wood panelling and hideous pink carpet. The royal bedchamber, last occupied by King Gyanendra, whose 2005 coup led to the abolition last year of his 240-year-old Shah dynasty, is rather poky. A bedside clutter of family snapshots and porcelain knick-knacks is simply poignant.

Since it was opened to the public on February 26th, by the Maoist prime minister who chased out its occupants, the palace has had over 36,000 visitors. Some are angry. The banquet-hall, with seating for 110, stirs particular rage in a country where almost half the children under the age of five are chronically malnourished. Other visitors—perhaps 15% of the total, reckons Jayaram Mahajan, a former royal retainer who now runs the palace museum—come in reverence. As they enter, these pilgrims stoop to take a blessing from the floor. But most visitors, Mr Mahajan admits, are rather underwhelmed. Even to a poor Nepali, the palace is no Versailles.

With more royal trophies to go on display—including the crown jewels and a Daimler-Benz car given to Gyanendra's grandfather by Hitler—the museum will improve. For now, its biggest draw is a patch of levelled ground beside the main palace. It is the site of a building, demolished by Gyanendra, where in 2001 his nephew, Crown Prince Dipendra, massacred his parents, the king and queen, and eight other relations. Helpful signs shows where each royal was killed. Beside a small pond, near where Dipendra shot his mother, Queen Aiswarya, then himself, bullet-holes are still visible.

Mr Mahajan seems to find little pleasure in his new job. "I wish the royal family had not been killed, and I wish the last king had not left the palace," he says. It seems Gyanendra was not expecting to do so. Beside the main palace is a half-built, rain-damaged annexe, which Gyanendra had ordered for a new banquet-hall, not long before his abrupt retirement and exit.

Australia's foreign policy

Rudd floats an Asian balloon

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From The Economist print edition

Kevin Rudd lobbies Barack Obama to support his grand plans for Asia

Illustration by Claudio Munoz

POLITICIANS often come to power with grand visions for reshaping their country's relations with the rest of the world—because, if they told the truth, and admitted they were only going to tinker with what they had inherited, think how boring that would be. But Kevin Rudd, who became Australia's prime minister in 2007, has better reason than most for describing his meeting with Barack Obama in Washington on March 24th as the start of a "new and important chapter in the Australia-United States relationship".

The previous chapter, under John Howard, Mr Rudd's conservative predecessor, had earned Australia the unflattering title of America's "deputy sheriff", thanks to Mr Howard's unstinting support for George Bush on Iraq and much else. According to Stephen Smith, Australia's foreign minister, the Rudd government got rid of that reputation when it withdrew the country's combat troops from Iraq last year. Now Mr Rudd wants to go further, building up Australia's ties in East Asia and working more through multilateral institutions, while seeking to be a partner of, not a deputy to, America.

The first test of that ambition will come in Afghanistan. Mr Rudd has always backed the war but support for it among Australians has dropped steeply from the two-thirds of 2001. An opinion poll on March 24th showed just 28% agreed with the idea of sending more troops to reinforce the 1,100 there now. Ten Australian soldiers have died, two since mid-March. Mr Rudd says he will listen to any request from America for more troops after Mr Obama's review of the Afghanistan strategy, "but listening…does not necessarily mean agreeing."

A bigger test will be his capacity to get Mr Obama's backing for Australia's ideas in East Asia. Some of these remain fuzzy. Mr Rudd's pledge to make Australia "the most Asia-literate country in the collective West" basically involves pouring money into Asian language and culture courses in schools and universities. But he also took to Washington an ambitious scheme for a new Asia Pacific Community which, he hopes, will transform Asia's diplomatic architecture. Australia has sounded out 21 countries as possible members, including America, China, India and Japan.

As Mr Rudd sees it, China's emergence as an economic giant opens up political and security challenges that would be best handled by a new institution, not Asia's plethora of existing bodies. In a speech in Singapore last year, Mr Rudd suggested that Australia and other regional countries should seek to "influence China's view of its role and responsibility".

The Obama administration has pledged only to talk about this. But Mr Rudd is likely to lobby hard. Allan Gyngell, head of the Lowy Institute, a Sydney think-tank, argues that he dominates foreign policy more than any Australian prime minister before him. At the least, turning the former deputy sheriff into a partner will do him no harm at home. It may even give him more clout in Asia.

Malaysia

Um, no change

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From The Economist print edition

Malaysia's ruling party chooses a new leader, but not a new direction

PARTY conferences are seldom thrilling but this week's gathering of over 2,500 ruling-party faithful in Malaysia's capital, Kuala Lumpur, has the eyes of the nation upon it. For, as the United Malays National Organisation goes, so goes the country.

Since Malaysia's independence from Britain in 1957, UMNO's chosen leader has always become the country's leader. This year the torch is passing from Abdullah Badawi, the prime minister, to Najib Razak, his deputy, who is standing uncontested as UMNO leader and due to be sworn in as Malaysia's sixth prime minister next week.

But his ascension to the top has its difficulties. A resurgent opposition is riding a wave of discontent as the country slides into recession. Some types of old-fashioned repression, like the decision to suspend two opposition newspapers, no longer work in a digital age. The party is widely seen as corrupt and self-serving. Its record on economic growth and maintaining order still attracts support from older Malaysians but counts for much less with younger voters. Everyone in UMNO agrees that trouble lies ahead.

Can it be averted? Mr Najib talks of "massive changes". But Malaysians have heard it all before, most recently in March 2008, after UMNO's dreadful showing in a parliamentary election. The spasm of introspection soon turned into a blame game and Mr Badawi was forced to say he would resign. The ensuing scramble for positions in UMNO has done little to change a widespread view that the party has been in power too long. The only person willing to stand against Mr Najib, the consummate insider, was Razaleigh Hamzah, a veteran outsider. Such a contest might have produced a debate about the party's direction. Instead, Mr Razaleigh's candidacy was quashed by party chiefs.

The underlying problem—for UMNO and Malaysia—is, to use the favoured euphemism, "money politics", meaning backhanders paid for public-sector contracts or, where UMNO is concerned, seats at the high table. On March 17th the party's disciplinary board said it had found 15 members guilty of money politics. They included Ali Rustam, chief minister of Malacca state, who was campaigning to become deputy party leader. He was duly disqualified. (The results of the polling for senior positions were due to be announced on March 26th.) Mr Rustam did not, however, step down as chief minister, nor is he facing criminal charges. Such episodes make talk of reform ring hollow. For all his fumbling, Mr Badawi seemed to recognise this. It is unclear whether anyone in the new ruling circle does.

The Indian Premier League

Re-hyphenated

Mar 26th 2009 | DELHI
From The Economist print edition

The decision to shift its favourite cricket tournament looks bad for India

The Times Of India

India hit for six

IT IS fashionable in India to say that the country has been "de-hyphenated" from its crisis-stricken rival, Pakistan. An announcement this week that the Indian Premier League, a dazzling cricket tournament due to be held in India next month, will be shifted to South Africa because of security concerns, is therefore hugely embarrassing. Pakistan is also newly out-of-bounds to foreign cricketers—after Sri Lanka's national team was ambushed there by terrorists last month.

The comparison is imprecise: no such atrocity aimed at sportsmen has occurred in India. But the upheaval is particularly painful, for two reasons. First, the IPL, in which eight city-based "franchises" play a shortened and fast-paced form of cricket, is an emblem of Indian aspirations. Its franchises are owned by some of the country's best-known billionaires. Several are co-owned by Bollywood stars. With huge salaries on offer, foreign cricketers have flocked to the IPL.

The second blow is that this marvel is being taken away from India because of its democratic system—which Indians should feel proud of but often do not. The IPL, which is spread over six weeks, would have coincided with India's general election, and, after long debates with state governments and the cricket board, the central government decided it could not be adequately policed. To make matters worse, there is a suspicion that electoral politics played a part. The Congress party, whose home minister made the decision, has less influence on India's rich and powerful cricket board than some of its rivals.

The franchise owners are said to be livid. Having mostly lost money in the inaugural season, they were expecting profits this year. The extra cost of sending teams abroad makes this less likely. The damage to the IPL brand, says Suhel Seth, a branding guru, could be costlier. "The IPL brand is about city-based franchises, you can't suddenly shift it abroad. I wish we'd outsourced the election to South Africa and kept the IPL."

America and Iran

The tantalising prospect of reconciliation

Mar 26th 2009 | WASHINGTON, DC
From The Economist print edition

Barack Obama has made his opening pitch. Might the ayatollahs respond in kind?

Illustration by S. Kambayashi

AFTER nigh on three decades of abuse-filled estrangement, two spouses mull a reconciliation. Bitter memories of insults and humiliation linger. Mutual acquaintances, fearing more broken crockery, offer to mediate. The initial exchanges have been held at high volume. But at least the sulky silence has been broken.

President Barack Obama was a teenager when America severed ties with its former ally, Iran, after Islamist revolutionaries occupied America's embassy in Tehran in 1979. Since then, mutual enmity, expressed in military confrontations, acts of sabotage and a steady stream of invective, has ripened into a broader strategic rivalry. But on March 20th, in a televised address on the day Persians mark their new year, Mr Obama proffered a new vision, promising to resolve differences by diplomacy and inviting the "Islamic Republic of Iran", as he politely called it, to "take its rightful place in the community of nations."

By thus implicitly acknowledging the legitimacy of a regime whose theocratic values are inimical to his own, Mr Obama broke with his predecessor, George Bush, who invariably distinguished rhetorically between Iran's people (good, freedom-seeking) and its unelected top leadership (vile, repressive), and strained every sinew to unsettle Iran's ruling clerics.

In his address, Mr Obama, by contrast, offered Iran nothing short of a "partnership"—provided, he added vaguely, the Iranians displayed their peaceful intent. Though he referred obliquely to Iran's support for violent groups that dispute Israel's right to exist, the president refrained from directly mentioning Iran's contentious nuclear programme, which the Israelis regard as an existential threat, or its abuse of human rights. Some former officials in Mr Bush's administration were aghast.

Iran's response was immediate—and typically cautious. Ayatollah Ali Khamenei, its supreme leader, rattled off a list of America's misdemeanours, not least its support for Iraq's Saddam Hussein in his war with Iran in the 1980s. He urged America to change its behaviour, not just its tone. But he promised a

policy based on reason, not emotion; Mr Obama and his team would be judged by their actions.

These are likely to be modest steps, to begin with. The administration's review of America's Iran policy, almost complete, has impressed on those involved how far America's rivalry with Iran has permeated policymaking across the region. For instance, America's hostility to groups such as Hamas in the Palestinian territories and Hizbullah in Lebanon is coloured by a perception that they are Iran's proxies. It is notable, too, that Mr Obama's desire to improve relations with Russia is fuelled partly by his hope that the Russians will press Iran harder to give up its nuclear ambitions. American experts on Iran also have a big say in policy towards Iraq and Afghanistan, whose occupation has furnished Iran's leaders with unanticipated chances to advance their claims to be a regional power. Indeed, it is on Iran's borders that efforts at detente may start.

Signals count for much. According to an Iraqi government official, Iran's Revolutionary Guard has reduced its meddling in Iraq since Mr Obama's inauguration. Now Afghanistan, the subject of much presidential attention, offers an opportunity for more overt co-operation.

America wants to dangle an offer to help stem the flow of drugs into Iran, which may have as many as 2m addicts, as a lure. The Iranians, for their part, want Mr Obama to assure them he will not try to replace the out-of-favour President Hamid Karzai, whom they helped install, with an American stooge, far less make terms with dissidents from the viscerally anti-Iranian Taliban; Mr Obama recently hinted at such an approach. Some NATO commanders muse that Iran could offer a fine supply route for their troops into Afghanistan, safer than the Khyber Pass from Pakistan, now regularly attacked by the Taliban.

So all eyes will be on the Iranian delegation expected to attend a big meeting to discuss Afghanistan at The Hague on March 31st. But the Americans do not expect a definitive Iranian response to their overture until after June's presidential elections in Iran, when they hope that the incumbent, Mahmoud Ahmadinejad, whose vicious fulminations against Israel have engendered boundless ill-will, will lose to a more moderate candidate.

There is also a possibility, mooted by Dennis Ross before he headed the American policy review, and perhaps now under way, of establishing a back channel. That could reduce the chance of a collision between two countries that have forgotten how to speak to each other.

Co-operation in Afghanistan would do as a starter. But for Mr Obama and his European allies, as well as for the new Israeli government of Binyamin Netanyahu, the real test will still be Iran's progress towards self-sufficiency in producing nuclear fuel, which could let it, perhaps in a matter of months (estimates vary), make a bomb. Iran denies such ambitions; Israel is disinclined to wait and find out.

Mr Obama hopes to buy time by dissuading Russia from delivering a missile-defence system that Iran has ordered and whose deployment could precipitate an Israeli attack on Iran's nuclear sites. As an opposition politician, Mr Netanyahu appeared to advocate such an attack. The Iranians may quietly slow the addition of more centrifuges to their cascade at Natanz, in central Iran; otherwise, promoters of detente will have an uncomfortable sense that time is running out.

The Obama administration is said to have warned Israel that attacking Iran would be counter-productive, spurring it to redouble its nuclear development in secret and perhaps to sow chaos in Iraq, Afghanistan and the Gulf. But Mr Obama is being badgered by fiercely pro-Israeli groups at home to look more kindly on the prospect of a pre-emptive Israeli attack.

If engagement fails, the administration may use financial levers to squeeze Iran harder. Stuart Levey, a Treasury official whose arm-twisting of banks around the world has partially dried up credit lines to Iran, is one of a very few senior Bush-era officials to have survived the change of administration. Some Americans reckon that this sort of pressure works better.

But financial pressure may be less effective these days because of a growing belief in Iran that America's power is waning, its economy in ruins. In 2003, when America ignored Iran's hints of a grand bargain, the ruling clerics sought America's embrace because they feared its wrath. No longer. As the epicurean mullah said when urged to eat some wholesome jelly, "If it is so fortifying, why does it wobble so much?"

Iraq

Still tread softly

Mar 26th 2009 | BASRA
From The Economist print edition

Despite progress in politics and security, Iraq's peace is still fragile

DOZENS of people were killed and wounded in a suicide-bombing at a funeral north-east of Baghdad this week. It was the third such attack in a fortnight, casting fresh doubt on whether Iraq's government and armed forces can keep the country secure as the Americans start to go home. The prime minister, Nuri al-Maliki, is anxious to ensure a smooth transition of power in Iraq's provinces after elections two months ago. And he still has to hold a potentially explosive poll to elect a new provincial council in Kirkuk, a disputed and ethnically divided city on the fault-line between the Arab parts of Iraq and the autonomous region of Kurdistan.

Thanks to the diving price of oil and a tighter budget, Mr Maliki has also had to stop recruiting new police. Plans to fold former insurgents into Iraq's regular security forces have slowed down too, raising fears that the "Sons of Iraq", the mainly Sunni tribal militias who turned the tide against jihadists linked to al-Qaeda in the past year or so, may become rebels again.

In public, Mr Maliki sounds confident. "When it comes to the withdrawal of American forces, I believe the Iraqis will be capable of taking the whole situation into their own hands," he said recently. But though Iraq's security is far better than it was two years ago, the insurgency is by no means over.

Al-Qaeda in Mesopotamia, as the Iraqi wing of the jihadist movement calls itself, retains a foothold in Mosul, Iraq's biggest northern city, where bombings and assassinations are relentless. Patches of Diyala province, north-east of Baghdad, remain violent, as tensions rise between Kurds and Arabs along its northern border with Kurdistan, where this week's suicide-bomb went off. In January's elections, the previously disfranchised Sunni Arabs won a lot more seats in the provincial councils of Nineveh (of which Mosul is the main city) and Diyala. But this has yet to dampen the insurgency in either province. Allegations of electoral fraud in Diyala have delayed confirmation of results, and give insurgents more excuse to make trouble.

Southern Iraq, in particular the oil-rich city of Basra, is completely transformed from its condition a year ago, when Iraqi and American forces, at Mr Maliki's instigation, attacked and defeated the Shia militias which had been allowed to run the show under the watch of British troops in the area. This success helped a coalition of parties, led by Mr Maliki's Dawa, to win landslide victories in provinces across the south two months ago at the expense of the Islamic Supreme Council of Iraq (ISCI), a rival Shia movement.

But there are worries that ISCI's militias, known as the Badr Brigades, with ties to Iran, may yet stoke up trouble to undermine Mr Maliki. Nor is it clear whether the Mahdi Army loyal to Muqtada al-Sadr, a radical Shia cleric also backed by Iran, will continue to lie low or plot a return to violence. Only a year ago it held sway over large tracts of the south. It is not yet out of the picture—and could stir strife again.

Such fears increased recently when the main British base outside Basra was hit by a rocket for the first time this year. The 4,100 British troops there will be replaced in the next few months by American ones. A ceremony is to take place in a few days to mark the switch of authority from a British to an American general. But the lingering presence of foreign troops in the south may stir up the hitherto dormant militias, particularly as American forces adopt a higher profile on the streets than their British counterparts. The Basra base is already teeming with Humvees and imposing machines called Mine Resistant Ambush Protected (MRAP) vehicles.

A lot depends on whether Basra's new provincial council can get big building projects off the ground, improve public services and help hundreds of thousands of jobless young men and women back to work. "We need a sewage network, tap water, a better electricity supply," says Mustafa Atier Risan, a newly elected councillor who backs Mr Maliki. "The health service is worse even than in the poorest countries." Education, he added, was dire. "But something positive in Iraq has begun."

Six years after the Americans toppled Saddam Hussein, Iraq's experiment in democracy is still moving shakily ahead. New political leaders are starting to gain legitimacy in the public mind, despite the presence of American soldiers in the background. When the occupying forces withdraw from city centres to bases outside them, as they are due to do by the end of June, Iraqi leaders may look more in charge of their own country. Moreover, the religious parties responsible for much of the sectarian conflict that devastated Iraq from 2005 to 2007 are less prominent, after scoring badly in the local elections.

But politics often still looks venal. Power and money may yet count more than votes. In the province of Karbala, south of Baghdad, an independent candidate who won 13% of the vote, more than anyone else, by running on a secular anti-corruption platform was expected to become governor. But he has been stopped from doing so, because of election rules that favour big parties. Struggles between rival parties still hurt Iraq's interests as politicians score points over each other in Parliament, causing a stalemate when it comes to voting through vital legislation such as a long-awaited oil law.

Iraq's next big event is a general election at the end of the year that is likely to change the shape of the coalition government, currently a bad-tempered mix of Shia Arabs, who hold most posts, and Sunni Arabs and Kurds, who are minority partners. Mr Maliki, a Shia Arab, is likely to bid for a second term as prime minister. No one is sure, whoever wins, that the defeated parties and their leaders will peacefully accept the people's verdict.

Israel's new government

Not as far-right as it might have been

Mar 26th 2009 | JERUSALEM
From The Economist print edition

Long accouchement, broad baby

IT TOOK six weeks of haggling, but Binyamin Netanyahu at last looks set to lead a not-entirely-right-wing government. The man who made it possible is the outgoing—and now incoming—minister of defence, Ehud Barak. It was he who made Ehud Olmert, embroiled in corruption investigations, announce his intention, last September, to step down as prime minister. In the ensuing election, last month, Mr Barak's Labour Party was savagely diminished, coming fourth with only 13 seats in the 120-seat Knesset, Israel's parliament. Since then, behind a façade of public assurances about how determined Labour was to stay out of a government of the hard right, Mr Barak has negotiated secretly with Mr Netanyahu to allow his reduced and riven party to stay in, as a pivotal partner in the new coalition.

EPA

Netanyahu (left) and Barak, odd allies

Mr Netanyahu will command at least 62 votes when he presents his proposed government to the Knesset for approval next week. He may get 67 if he can yet draw in the five bearded, black-coated members of United Torah Judaism, and perhaps even more, if some of Labour's seven recalcitrants can be persuaded to fall in behind their party leader. "You have forfeited the leadership," one of them, Ophir Pines-Paz, flung at Mr Barak during a stormy meeting of Labour's recent party conference. Only 55% of the 1,000-plus delegates backed Mr Barak. "[Golda] Meir and [Yitzhak] Rabin are turning in their graves," Mr Pines-Paz lamented, invoking a pair of Labour's earlier leaders. The Labour rebels claim their party will give Mr Netanyahu a figleaf to cover a policy that will coddle Jewish settlers on the West Bank while letting the peace process languish.

Messrs Barak and Netanyahu go back a long way. In the early 1970s Mr Barak, who eventually rose to be the army's chief of staff, was the commander and Mr Netanyahu one of his officers in the Sayeret Matkal, a semi-secret, elite commando unit. Much later, Mr Barak, who sees himself as the murdered Mr Rabin's hand-picked successor, served a truncated term as prime minister from 1999 to 2001 after defeating Mr Netanyahu at the polls and ending his stint as prime minister after three years.

But Mr Barak's coalition melted away after he had accepted President Bill Clinton's "parameters" for a peace deal at the very end of the American president's term. Mr Netanyahu had previously accepted the Oslo accords, signed by Mr Rabin in 1993, that foresaw the gradual creation of a Palestinian state. But Israel's peace camp, led by Mr Barak, accused Mr Netanyahu, during his time as prime minister, of choking the peace process to death.

After their electoral defeats, both took time off from politics to make money from consultancies and lecturing. Both came back claiming they had attended to their flaws and had much improved. But supporters and traducers alike see little essential change in either. Mr Netanyahu, though more courteous than before, is still wobbly under pressure. Colleagues in his Likud party say that is why he has given away so many of the spoils of office to his coalition partners in back-room deals. Mr Barak is still aloof and authoritarian, scarcely veiling his contempt for politics in general and for his own party in particular.

Mr Netanyahu says the indelible lesson of his rocky first term as prime minister was not to make do with a narrow right-wing-cum-religious coalition—the Likud plus its "natural allies", as he calls them—but to widen his government leftwards. He thinks Labour's presence will soothe international worries about his hardline pronouncements (he has said there will be no Palestinian state for now, no withdrawal from the Golan Heights, and no partition of Jerusalem) and especially about his alliance with Avigdor Lieberman's

extreme nationalist Yisrael Beitenu party. Mr Lieberman, whose lot won 15 seats in the election, is to become foreign minister.

In his negotiations with Tzipi Livni, leader of the centrist Kadima party, which won the election with 28 seats to the Likud's 27, Mr Netanyahu balked at explicitly embracing a two-state solution, in which Israel and Palestine would exist side by side as sovereign countries. Labour says he has now done so obliquely, by agreeing to abide by all the undertakings signed by the outgoing Kadima-Labour government.

Peaceful noises, of a kind

In the new Likud-Labour coalition, Mr Netanyahu has pledged to "work for regional peace" and to negotiate with the Palestinian Authority "for peace", urging businessmen to invest in the Palestinian economy. His election platform stressed "economic peace" as the immediate practical goal of regional diplomacy. The Obama administration, however, has pointedly restated its commitment to the creation of two states as the key to a solution.

Mr Netanyahu and Mr Barak argue, each to his own disgruntled party faithful, that Mr Barak's continued stewardship of the defence ministry should reassure the Arabs and the wider world of Israel's restraint and moderation. This seems bizarre, even obtuse, in light of the broad international opprobrium that followed Israel's assault on Gaza earlier this year, which Mr Barak led as minister of defence. But opinion polls suggest that most Israelis continue to support and justify that attack, and many say it should have gone on longer. In any event, Mr Netanyahu may be pondering harder over Iran than over Palestine, and may want Mr Barak at his side as he considers military options to stop or delay Iran's suspected ambition to get a nuclear bomb.

Israel and Egypt

A chillier peace

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From The Economist print edition

Thirty years after signing a peace treaty, Egypt and Israel are only frosty friends

THE Godfather, the fictional Mafia supremo, advised that one should hold friends close but enemies closer. Thirty years ago, after three decades of on-and-off war, Egypt and Israel chose to heed this advice and sign a peace treaty. Though severely and repeatedly strained, the deal has come to be taken for granted as a linchpin of the fragile Middle Eastern order. But new stresses may test neighbourly relations as never before.

The peace has always had its critics: an Egyptian president, Anwar Sadat, paid with his life for supporting it. Nowadays sceptics on both sides are no longer seen as marginal fanatics. In the haggling to form a new Israeli cabinet after the election in February, Binyamin Netanyahu, the hawkish right-winger who is set to become prime minister, has conceded the post of foreign minister to the even less placatory Avigdor Lieberman. Mr Lieberman has in the past averred that Egypt is plotting a surprise attack on Israel, in the event of war recommended bombing the Aswan dam and said that Egypt's president, Hosni Mubarak, could "go to hell" for his refusal to visit Israel. Such sayings have not endeared him to Egyptians, already appalled by the recent wars waged by supposedly milder Israeli governments in Lebanon and Gaza.

Inside Egypt, meanwhile, the 80-year-old Mr Mubarak's opponents have mounted a surprisingly effective campaign to challenge the countries' main commercial agreement. Signed in 2005, it commits Egypt to export natural gas to Israel. Critics, who say the gas is underpriced and has helped Israel wage war on Palestinians, have won court rulings in their favour. The government has so far blocked their implementation, arguing that it does not sell gas to Israel but rather to a private Egyptian-Israeli firm that just happens to be largely owned by businessmen linked to both countries' intelligence services. But pressure is mounting for a fuller accounting.

Such unusually strong ripples of dissent reflect the region-wide opprobrium that has washed over Mr Mubarak since he refused to break Israel's siege of Gaza by opening Egypt's own border with the battered Palestinian territory. Such waves have buffeted Egypt's leaders each time their old Zionist enemy has lashed out at fellow Arabs, beginning with its invasion of Lebanon in 1982. But as Israel looks uglier than ever to the Arab street, and as Israel's foes such as Hamas in Gaza and Hizbullah in Lebanon look more heroic, Egypt's ageing leader looks more exposed.

At the same time, the United States, which underwrote the peace agreement of 1979 with generous aid, has lost influence. At first, American aid accounted for nearly 10% of both countries' GDP. Now it amounts to under 1% of Egypt's and under 2% of Israel's. Still, reliance on American equipment means that both countries' armies depend on the superpower. Despite the braggadocio of Israel's politicians and burning Arab resentment, neither Israelis nor Egyptians desire a return to war. But as Egypt's regime may be nearing a change at the helm and Israelis lose hope of ever gaining acceptance in the Arab world, the cold peace between them may drift towards something more like a cold war.

Madagascar and Africa

A coup that is not yet irreversible

Mar 26th 2009 | JOHANNESBURG
From The Economist print edition

The island's new leader has yet to consolidate his power

SWORN in as Madagascar's president on March 21st after an army-backed coup, Andry Rajoelina may yet find the guns trained on him if he does not return his Indian Ocean island swiftly to democratic rule. When rebel soldiers staged a coup in the neighbouring Comoro Islands last year, the African Union (AU) promptly sent in a military force to restore order. Could the same happen to Madagascar? The 53-member club is increasingly intolerant of illegal seizures of power.

A security subcommittee of the Southern African Development Community (SADC), a 15-country regional group which includes Madagascar, has condemned "in the strongest terms the unconstitutional actions that have led to the illegal ousting of the democratically elected president", Marc Ravalomanana, in violation of the SADC treaty and the charter of the AU.

Reuters

Rajoelina, a young man in a hurry

The subcommittee, consisting of Angola, Mozambique and Swaziland, along with South Africa, which currently chairs the SADC, called on the AU and the "international community" not to recognise Mr Rajoelina's appointment and to press him to return his country to democratic and constitutional rule "in the shortest time possible". If he refused, it would recommend "appropriate sanctions" (not yet defined) "and/or using all relevant resources available to restore order", meaning armed force. "The bottom line," said Charles Nqakula, South Africa's defence minister, after the meeting, "is that the democratically elected leader of Madagascar has to be restored to his position." The SADC has a summit on March 30th, which Mr Ravalomanana may attend.

Immediately after the coup, Muammar Qaddafi, Libya's president and current chairman of the AU, who himself came to power in a coup 40 years ago, telephoned the 34-year-old former mayor of Antananarivo, Madagascar's capital, to say he would recognise the new regime. But the next day, confusingly, the AU suspended Madagascar from its club, giving Mr Rajoelina six months to restore constitutional government or face possible sanctions.

Mr Rajoelina denies he has done anything illegal. Before Mr Ravalomanana stepped down (after his presidential palace had been seized), he had "voluntarily" handed power to a military directorate, which in its turn, under duress, had handed it to Mr Rajoelina. His was a victory of "true democracy" over dictatorship, he said. He would abide by "the principles of good governance" and hold elections within 24 months.

But his plea for the world not to abandon Madagascar and its 20m people, most of them very poor, is unlikely to be heard. The United States, a big donor, says it will suspend non-humanitarian aid. France, the former colonial power, which was earlier suspected of backing Mr Rajoelina, has unequivocally denounced the "coup d'état", as has the rest of the EU.

All this has heartened Ravalomanana loyalists, who have begun staging what they hope will be daily demonstrations in Antananarivo, calling for a return to constitutional order. The former president, who has taken refuge in South Africa, is said to enjoy support outside the capital and in sections of the armed forces. Madagascar's new boss is not yet home and dry.

Judgment days

Mar 26th 2009 | KARLSRUHE
From The Economist print edition

The little-known judges on Germany's Constitutional Court exert real influence, not only at home but also abroad

Illustration by Peter Schrank

WHEN the principality of Baden merged with two others to form Baden-Württemberg in 1951, its former capital, Karlsruhe, was given a consolation prize: the Constitutional Court of the new federal republic. Modestly housed in squat blocks, the court is far from the capital, Berlin. Yet the federal government (and the states) are forever grappling with its edicts. Any toughening of police powers to deal with terrorism seems to provoke objections in Karlsruhe. So do lesser matters, such as whether commuters can deduct transport costs from taxes or whether bars can let smokers light up. "The Constitutional Court is often called the third chamber of the legislature," notes Dieter Grimm, a former judge. "There is something in it."

Now the court is to rule on the European Union's Lisbon treaty, which critics say could put the judges out of business. In February it heard arguments that the treaty would give the EU the attributes of a state without making it democratically accountable, and would sap the court's powers to protect the fundamental rights of Germans. Yet few court-watchers expect the judges to throw Lisbon out. Germany's EU membership is enshrined in the constitution; and the court has long-standing partnerships with the European Court of Justice (ECJ) in Luxembourg and the European Court of Human Rights in Strasbourg.

Lisbon would tilt the balance of power a bit toward Luxembourg, but not as far as its opponents fear. Judges on the Constitutional Court will not discuss the case, but its vice-president, Andreas Vosskuhle, notes that Germany has often gained influence through the EU. He is right. Moreover, even as the Constitutional Court has been shaping post-war Germany, German jurisprudence has spread to affect Europe and much of the world.

The Constitutional Court is in some people's eyes Germany's most powerful institution. Almost 80% of Germans trust it; less than half have confidence in the federal government and the Bundestag, the lower house. Although a political player, the court is seen to be above politics. Parties nominate judges, but they are usually approved unanimously by the legislature. Unlike America's Supreme Court justices, Germany's seek consensus and seldom write dissenting opinions. Any citizen may bring a constitutional case, an

antidote to Nazi notions of justice, and some 6,000 a year do so.

The court is revered partly because Germans' affinity for the rule of law is greater than for democracy, some scholars say. Germany's "constitutional patriotism" resembles the American idea of a nation founded on rights and values. But Germans have a different notion of these. American rights—to bear arms and speak freely, for example—are "small and hard", argues Georg Nolte, a scholar at Humboldt University in Berlin. Germany's, by contrast, are "fat and flexible".

The German constitution, or basic law, which will mark its 60th birthday on May 23rd, is a never-again document. Its first article declares that "human dignity shall be inviolable". It endows Germany with a weak president and strong state governments. Its freedoms do not extend to those who would destroy freedom, which may explain how Holocaust-denial can be a crime despite freedom of speech.

The court has elaborated rights that the constitution's authors never envisaged. The Lüth decision of 1958 held that constitutional rights affect citizens' relations not just with the state but also with each other, a judgment so far-reaching as to be termed a "juridical coup d'état". The court developed a notion of the "duty to protect" basic rights from threats stemming from private action or social forces. In 1983 the court created a right for individuals to control their personal information. Last year, when considering plans to snoop on the computers of suspected terrorists, it found a right to the "integrity of information-technology systems". "German society is over-constitutionalised," observes Donald Kommers, of the University of Notre Dame, in Indiana.

Hans-Jürgen Papier, the court's president, thinks its reputation for activism is exaggerated. Since 1951 it has judged laws, or parts of laws, unconstitutional in just 611 cases, a small fraction of the number it has considered. But it happens enough to keep the government busy. Recently, for example, it told the government to reinstate a tax deduction for commuters who live near their jobs, one of a number of tax rulings that is causing the finance minister heartburn. The court did not say that commuting costs must be tax-deductible, only that treating people who live close to work differently from those who live far away was unconstitutional.

Friction has increased over the balance between freedom and security. On rights it deems absolute, the court is implacable. In 2006 it said the air force could not shoot down a plane commandeered by terrorists even to prevent a greater disaster. The court often tells lawmakers to do a better job of balancing means and ends. A decision striking down a state law allowing investigators to monitor suspects' computers ruled that such powers are permitted only with a judge's warrant and evidence of a grave crime. That was meant to be a warning to the federal government, which was preparing its own law. Wolfgang Schäuble, the interior minister, has occasionally struck back; last year he grumbled that some of the judges' musings were "not democratically legitimate". Mr Papier says that such tensions between the court and the executive are not new.

In a world densely populated with rights, every legal act is likely to infringe at least one other. The court uses "proportionality" to decide what can be allowed. The judges subject any infringement to a whole gamut of tests. The answers reveal, for example, where a journalist's right to free speech ends and a citizen's right to privacy begins. Possessing a little cannabis is fine, says proportionality, because law enforcement must be balanced against the right to "free development of personality".

Invented by Prussia in the 18th century to limit the Kaiser's power, proportionality has influenced constitutions from Canada's to South Africa's. Mr Nolte calls it "the prime example of the migration of constitutional ideas". Even America's Supreme Court, which employs its own form of rights-balancing, is taking an interest. Justice Stephen Breyer referred to proportionality in a recent opinion on gun control, provoking scholarly excitement.

In the meshing of the German constitution with European law, proportionality provides a lubricant. Each side is jealous of its prerogatives but eager to avoid confrontation. Since 1974 Karlsruhe has made the transfer of powers to Europe conditional on the protection of Germans' basic rights; if these are infringed, the court insists, it can reclaim them. The ECJ, meanwhile, acts as the "motor of European integration" (and on human-rights issues Strasbourg has the last word). Think of an Alexander Calder mobile rather than a pyramid, suggests Renate Jaeger, the German judge on the human-rights court. Occasionally there are conflicts. Strasbourg told the German court that its pro-paparazzi ruling in a case brought by Princess Caroline of Monaco struck the wrong balance between press freedom and privacy. In February the ECJ upheld an EU directive on data collection, using defence of the single market as justification for what looked to Germans like a public-security matter. That raised hackles in Germany.

Lisbon, if ratified, will change things, by giving the European Commission and the ECJ a bigger role in

justice and security affairs. Rainer Nickel of the University of Frankfurt foresees a “quantum leap” in the erosion of the Constitutional Court’s powers. But judges are more sanguine. European courts collaborate closely and there is little reason for this to change, whether Lisbon is ratified or not. “It’s a shared learning process,” Mr Vosskuhle argues.

He will become the court’s youngest-ever president when Mr Papier retires next year. Karlsruhe, he thinks, will have its hands full coping with the implications of new technologies such as genetic engineering, with “sustainability issues” like demography and climate change and with growing threats to “equal living conditions” across Germany, another constitutional issue. It seems certain that there will be life after Lisbon.

Religious education in Germany

God and Berlin

Mar 26th 2009 | BERLIN
From The Economist print edition

A referendum next month may import religious teaching into Berlin's schools

BY AMERICAN standards, German culture wars are mild affairs. A spat in Berlin over teaching religion in schools may be an exception. Next month the city will vote on whether schools should teach the subject as an alternative to an ethics course. The debate is only partly about how God fits into the classroom; it is also about how Muslims fit into Berlin.

In most of Germany, the constitution already makes religious instruction part of the curriculum (secular students can opt out). But Berlin and two other states are exempt. The city's godlessness was shaken in 2005 by the "honour killing" of a young Turkish woman. As an antidote, Berlin's government brought in a non-religious ethics course a year later.

For Berlin's beleaguered believers, this was both threat and opportunity. Enrolment in (voluntary) religious classes outside school hours dropped. But some religious folk spotted a chance to sneak in more traditional teaching. Thus was born Pro-Reli, a movement that has festooned Berlin with red-and-white posters demanding "free choice between ethics and religion" and collected 270,000 signatures to force a referendum.

The debate is over whether religious teaching fosters or hinders tolerance. Pro-Reli's critics fear that separating schoolchildren by religion may undermine social peace. Supporters retort that people with strong religious convictions respect faith, whatever its form. Christoph Lehmann, Pro-Reli's leader, defines tolerance as "accepting everyone as he is". The left, he says, belittles religious differences and calls that tolerance.

The battle lines are not sharp. Stephan Frielinghaus, a Protestant pastor, supports ethics classes as a "space where different traditions can learn to live together". Troubled by what he sees as Pro-Reli's "demagogic campaign", he has joined a pro-ethics movement. Berlin's ruling coalition of Social Democrats and the Left Party is anti-Reli, but some Social Democrats are pro, including the foreign minister, Frank-Walter Steinmeier.

What everyone shares is an obsession with Muslims, who account for over half the students in parts of the city. The ethics course is partly meant to snuff out incipient violent radicalism. But it leaves many children learning the Koran from teachers who have little stake in German society. Better, says Pro-Reli, to bring it into school, where German-speaking teachers can impart Islam under the state's watchful eye.

That Pro-Reli has got so far is a success in a city one sociologist calls "the world capital of atheism". Some 60% of Berliners profess no religion, a tendency stronger in the ex-communist east than in the bourgeois west. Even if Pro-Reli wins a majority, the referendum will fail unless a quarter of the 2.4m-strong electorate says yes. Teaching of religion in schools may be undone by sloth, not atheism.

France's ethnic minorities

To count or not to count

Mar 26th 2009 | PARIS
From The Economist print edition

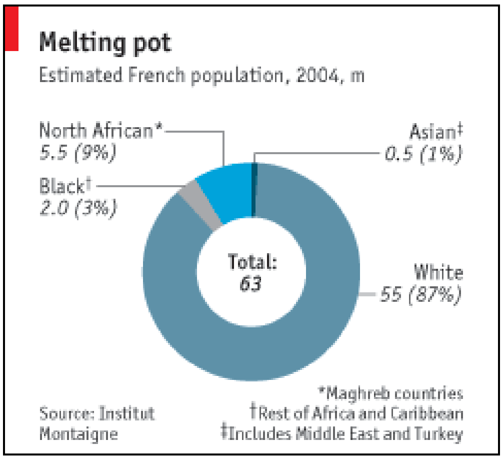
A new effort to gather data on ethnic origins is stirring up a fuss

HOW can a country decide if ethnic minorities are thriving when it refuses to acknowledge they even exist? France has grappled with this conundrum for years. Under its egalitarian ethos, it treats all citizens the same, refusing to group them into ethnic categories. It is forbidden by law to collect statistics referring to “racial or ethnic origin”. Yet even the casual visitor notices how multi-ethnic France is—and how few non-whites have top jobs. Now a new plan seeks to make it possible to measure “diversity”. Yazid Sabeg, the government’s diversity commissioner, has set up a group to find the best way to collect information.

The hope is that this will give France “the statistical tools that will enable it to measure diversity, precisely in order to identify where it is behind, and to measure progress.” That was what President Nicolas Sarkozy called for last year. To American or British ears this plan may sound uncontroversial, but in France it is causing uproar, even though Mr Sabeg wants any data to be offered voluntarily, anonymously and on the basis of self-categorisation.

Critics see ethnic data as an assault on the republic’s secular principles, and detect a nasty echo of Vichy-era identity documents. SOS Racisme, an anti-discrimination group, is among the most hostile. It has collected over 100,000 online signatures for a “campaign against ethnic statistics”. Not only would this be anti-constitutional, it argues. Classifying people by race would also encourage discrimination, not prevent it, and reduce identity to “criteria from another era, that of colonial France, or Vichy”. Fadela Amara, a government minister of Algerian origin, went further. “Our republic must not become a mosaic of communities,” she said. “Nobody must have to wear the yellow star again.”

Yet unease over ethnic labelling makes it hard to get a sense of how minorities are faring. Census data refer only to nationality; there is no record of the ethnic origin of French-born offspring of immigrants. Only 2.3m non-European foreigners are legally resident in France. Yet the best estimate of the (legal) minority population, foreign and French, is 8m (see chart).



To get around the rules, social scientists have invented ingenious ways to analyse ethnic minorities in France without actually referring to race. Jean-François Amadieu, at the Sorbonne, has used names as a proxy for ethnicity. His research suggests that a French job applicant of north African origin gets a third as many responses as a comparable white person. He also reveals that only 7% of local councillors elected last year were from ethnic minorities—and a derisory 0.4% of mayors.

Tentative efforts have been made to break taboos over race. Rama Yade, the Senegalese-born junior minister for human rights, wrote in her book, “Blacks of France”, that “one sometimes has the strange impression of upsetting others by being black in a country that thinks of itself as white.” Patrick Lozès, a Beninese-born activist, set up a lobby group called the Representative Council of Black Associations of France. He argues that, for France to recognise and correct discrimination, it must have the courage to name those being discriminated against. “People don’t like it when I describe myself as black because they say that skin colour doesn’t count, but it’s hypocrisy,” he says. “I’m black in the eyes of the police, or an employer. So as a society we should have the courage to say so.”

The Italian right

Rendering unto Caesar

Mar 26th 2009 | ROME
From The Economist print edition

His newly merged right-wing party entrenches Silvio Berlusconi in power

DELEGATES to the inaugural congress of the People of Freedom (PDL) party on March 27th can buy a new political souvenir: a Russian doll in the image of Silvio Berlusconi. Inside are progressively smaller dolls of the other prime ministers he has left behind in the past 15 years. The doll carries a message as troubling to critics as it is heartening to admirers: that Mr Berlusconi is no longer one of several political rivals, but Italy's uncontested master.

Since he swept to power for the third time last year, opposition has melted like Alpine snow at winter's end. In less than a year, the unions have split, the main opposition party has changed its leader and—thanks to the impact of a global economic crisis on a society in which politics and the economy are inextricably entwined—Mr Berlusconi has gained immense powers of patronage over Italy's apprehensive bankers and industrialists.

The transformation of the PDL from an electoral alliance into a real party is but the latest milestone in his triumphant advance. At its own congress on March 22nd the National Alliance (AN), which grew out of Italy's neo-fascist movement, formally wound itself up and merged with Mr Berlusconi's old party, Forza Italia. Mr Berlusconi has long said his dream was to create a single party of the right. That dream still eludes him, as the anti-immigrant Northern League remains determinedly independent. But the new PDL takes him a big step closer. The right now has a dominant movement comparable to the left's Democratic Party, pushing Italy nearer a two-party system.

Some of Mr Berlusconi's associates fret that heading a more heterogeneous party could turn the prime minister from a leader into an arbiter. That is what happened to the Democratic Party's first leader, Walter Veltroni, who acquired a politically lethal reputation for wishy-washy indecisiveness. But the bigger fear is that the freedom in the new party's title might be that of Mr Berlusconi to do whatever he likes. Francesco Storace, a former Berlusconi minister who left the AN to found his own, unambiguously far-right party, said he looked forward to seeing what happened when "it becomes clear only Berlusconi rules". The prime minister is not used to being questioned by his followers. He created Forza Italia as a vehicle for his own ambition. At the start, most of its top people were his employees. AN, by contrast, is a party with a strong tradition of internal debate and dissent.

For many years, Mr Berlusconi's heir-apparent has been AN's leader, Gianfranco Fini. But after the 2008 election he was made speaker of the Chamber of Deputies. Since then, he has become a fierce and, for the prime minister, exasperating champion of the legislature, while appearing to slip rapidly leftward. He has decried Mr Berlusconi's use of votes of confidence to rush through bills without full debate and says the right is in danger of succumbing to "Caesarism". He has criticised plans for government-authorised vigilante patrols, and deplored as "immoral and unjust" a measure allowing doctors to report illegal immigrants to the police.

There has even been speculation that Mr Fini might position himself as a standard-bearer of libertarianism within the PDL. Yet at the AN congress he unequivocally endorsed Mr Berlusconi's leadership. For the moment, the ever-smiling, ever-tanned media tycoon remains a Caesar with no Brutus in sight.

The Hungarian prime minister

Gyurcsany goes

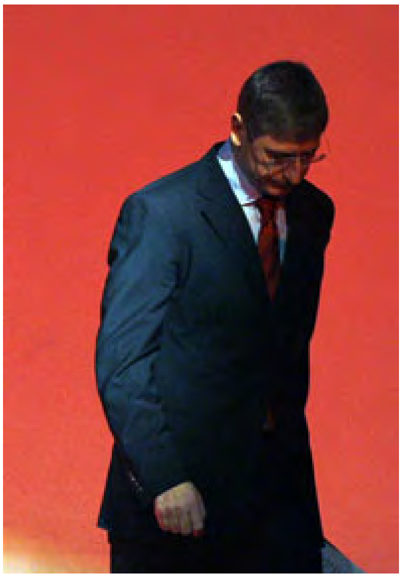
Mar 26th 2009 | BUDAPEST
From The Economist print edition

A deepening economic crisis forces out Hungary's prime minister

HUNGARY'S ruling Socialists are desperately seeking a new prime minister. Ferenc Gyurcsany resigned dramatically on March 23rd, telling his party congress that, "I hear that I am the obstacle to the co-operation required for changes, for a stable governing majority and the responsible behaviour of the opposition…I am eliminating this obstacle now. I propose that we form a new government, under a new prime minister."

Years of mismanagement and the Socialists' failure to trim public spending enough, or to reduce a huge pension burden, have left Hungary's economy on the edge of meltdown. Gordon Bajnai, the economy minister, told a leftist daily, *Nepszabadsag*, that Hungary faced "a currency crisis that could trigger social and economic collapse. We must take determined steps to stop this from happening."

Reuters



A prime minister eliminated

The Socialists are likely to choose Mr Gyurcsany's successor early next month. He may not even be a party member. Two men often mentioned are Gyorgy Suranyi, a former governor of the central bank who introduced an austerity package in the 1990s, and Ferenc Glatz, a former president of the Hungarian Academy of Science. Lajos Bokros, a reforming finance minister in the 1990s, may also be a contender.

Mr Gyurcsany, once hailed as a young moderniser, never really recovered from the riots that erupted in autumn 2006 after his confession that his government had lied repeatedly about the state of the economy. His timid attempts to cut Hungary's stifling tax burden have had little impact. This month the forint hit a record low, despite a $25 billion rescue package led by the International Monetary Fund. The unemployment rate has risen to 8.4%. The government forecasts that GDP will shrink by 3.5% this year; Capital Economics, a think-tank, predicts a fall of 7.5%.

Hungary remains hobbled by corruption (a cosy cartel, especially in local government, slices up European Union funds), a heavy burden of debt and a black economy that may account for one-fifth of GDP. Despite the crisis, a sense of unreality prevails. Nationalist intellectuals use the language of the 1930s to rail against foreign capital and "cosmopolitan" influences. Viktor Orban, leader of the opposition Fidesz party, laments that more than 80% of the financial system is "in foreigners' hands". Social tensions are rising, after a string of attacks on Hungary's Roma gypsies that followed two highly publicised murders allegedly perpetrated by Roma.

It is no surprise that Mr Gyurcsany's approval rating is barely 18%. Two-thirds of voters now back Fidesz, against 23% for the Socialists. Mr Orban has demanded an early election, calling the Socialists "Hungary's disgrace". Yet there may be less to Mr Gyurcsany's departure than meets the eye. A former communist youth leader turned multimillionaire, he is a wily operator. His resignation was choreographed, and he was swiftly re-elected as party chairman. The minority government depends on support from the liberal Free Democrats and pro-business Democratic Forum, neither of which wants an early poll. A new prime minister might let the Socialists say they were forced into unpopular spending cuts, leaving a rejuvenated Mr Gyurcsany to pull the strings behind the scenes.

The Czech prime minister

Topolanek toppled

Mar 26th 2009 | STRASBOURG
From The Economist print edition

The European Union frets over the collapse of the Czech government

WHEN the Czech Republic took over the rotating presidency of the European Union on January 1st, there were reasons to wish it well. The Czechs are a success story in central Europe, thanks in part to the image of their first democratic president, the playwright Vaclav Havel, and the ex-dissident youngsters he put in key posts. Their economy was strong, and their bureaucracy relatively reliable.

Yet in Brussels and even more in Paris (France held the preceding six-month presidency), some were snobbishly unwilling to believe that the small newcomer could manage to chair EU meetings successfully. Some grumbling sounded self-serving. Unnamed French officials briefed that, if the Czechs messed up, President Nicolas Sarkozy might take back the reins, perhaps by calling meetings of the 16 euro countries (the Czechs are not among them).

The critics’ charge sheet against the Czechs is long. They are Eurosceptics who have not yet ratified the EU’s Lisbon treaty. They are strongly pro-American, even by the standards of other ex-communist countries that joined the EU in 2004. They are free-market liberals to a fault, and too keen on enlargement: look at their presidency slogan, “Europe without borders”. And then, said the west European press, look at the man coming after the dynamic Mr Sarkozy: the Czech president, Vaclav Klaus. Is he not a populist and climate-change sceptic who has likened the EU to Soviet tyranny and will not fly the EU flag over Prague Castle?

Until this week, the obsession with Mr Klaus was both unfair and misplaced. With limited foreign-policy powers, he no more runs the EU than will the king of Sweden during the Swedish presidency, starting on July 1st. The EU presidency has been in the hands of the prime minister, Mirek Topolanek, a more pragmatic sort, if a bit of a plodder.

But that was before March 24th, when Mr Topolanek’s coalition lost a confidence vote in the Czech parliament after party rebels joined forces with the opposition Social Democrats. Now power has genuinely shifted to Mr Klaus, who can decide whether to ask Mr Topolanek to stay as a caretaker, or to invite somebody else to try forming a government.

Among Eurocrats the biggest fear is not over the EU presidency, which will function whatever happens, but over the Lisbon treaty, which splits Mr Topolanek’s centre-right Civic Democrats (ODS). The Senate had been due to vote on it shortly, but Alexandr Vondra, the deputy prime minister, admits the political crisis makes it “a lot more difficult” to persuade ODS waverers to say yes. Speaking to the European Parliament in Strasbourg, a day after the vote in Prague, Mr Topolanek insisted it was business as usual for the Czechs’ EU presidency, which remains in their hands for three more months (he promptly attacked American economic-recovery plans as the “way to hell”). Few believed him.

Charlemagne

Those exceptional British

Mar 26th 2009
From The Economist print edition

Even Gordon Brown's trip to Strasbourg cannot disguise Britain's structural problem with Europe

Illustration by Peter Schrank

WHEN Gordon Brown told America's Congress that today's European leaders were the most pro-American in recent memory, his hosts cheered. They cheered again when the British prime minister said that Iraq-era splits between "old" and "new" Europe were healed, declaring that "there is only your friend Europe". His speech in early March won 19 standing ovations.

On March 24th the British prime minister gave a similar speech to members of the European Parliament (MEPs) in Strasbourg, tweaked to include gushing praise for the European Union ("a beacon of hope for the whole world"), a quote from Michelangelo and a pledge that he felt "proud to be British, and proud to be European". He was greeted with tepid applause from a half-empty chamber—and one partial ovation. On he ploughed, declaring that Europe was "uniquely placed" to shape new rules for globalisation. We have learnt, he said, that wealth must serve more than the wealthy. In Washington, Mr Brown called this a personal lesson from his father, "a minister of the church". In a canny nod to Euro-secularism, in Strasbourg he attributed the same insight to "our belief as a European Union".

It only half worked. Mr Brown spent over a decade as chancellor of the exchequer avoiding EU meetings, or dropping in just long enough to deliver lectures on British economic wisdom. MEPs were frankly incredulous when he praised the European Parliament for campaigning for tougher workplace rules. As one promptly reminded him, his government is fighting an EU bid, led by the Parliament, to curb British working hours.

More broadly, many smell a rat when a British prime minister calls for transatlantic co-operation and matches every mention of European leadership with the need for "global" results. Like the Germans and French, MEPs want Mr Brown to agree to tough rules for global finance at the London summit of the G20 on April 2nd. If America resists (as many in Europe fear it will), they would settle for rules that apply in the EU alone.

Some senior European officials do not trust Mr Brown to stick with Europe at the G20, fearing he will run to the Americans. This explains the tense mood at a recent EU summit. The written conclusions talked of unity, but the real mood was of phoney war, before a potential fight at the G20. The word "global" causes queasiness. To the British, it is obvious that America must help to fix a crisis that began in American markets. Not at the cost of giving America a veto, might be the retort in Paris, Brussels or Berlin. Some European politicians, noting Chinese resistance to binding international rules, even wonder if leaders who talk of "global" regulation do so because they assume it will never happen.

A people's party problem

Britain has a structural problem with Europe. Further proof came in another story making waves in Strasbourg, the departure of British Conservatives from the main centre-right group, the European People's Party (EPP). The Tories, fulfilling a pledge by David Cameron when he ran for the leadership, promise to create a new group after the European elections in June, uniting mainstream parties of the right that oppose ever closer union.

Supporters of the split say that the EPP has federalist views. They are right. Opponents say the Tories are taking a risk, as the EPP is home to almost all mainstream centre-right parties in Europe (one Tory MEP formally joined the EPP this week). They are right too. Some say the Tories will end up allied with oddballs, and neo-fascists from eastern Europe. That is mostly—but not completely—unfair. The full list of allies is secret. One, the Czech Civic Democrats, has just lost power at home; and its founder, Vaclav Klaus, is noisily sceptical about climate change, a cause dear to Mr Cameron. Detective work uncovers more presentationally tricky cases. The international secretary of the Latvian Fatherland and Freedom Party, Janis Tomelis, recently met William Hague, the Tory shadow foreign secretary, to discuss an alliance. As it happens, the party's leader in Strasbourg, Roberts Zile, is a mild-mannered economist. But his party includes hardline nationalists who attend ceremonies to commemorate a Latvian unit of Waffen SS troops. Latvian nationalists insist that these were patriots fighting the Soviets, not Nazi war criminals. Good luck explaining that distinction in a British election campaign.

Imagine a centrist voter of the sort Mr Cameron says he wants to attract: a professional graduate who is liberal on social issues, say, and worries (a bit) about climate change. He would hate to be thought a nationalist or little Englander. He works for a multinational firm, and thinks that open EU borders for goods and workers are a good thing (he had a great time at a Polish colleague's wedding). It is perfectly possible for that same centrist to be instinctively hostile to the EU's institutions, associating them with waste, corrupt bureaucrats and meddling. While not wanting to leave the EU, he might welcome a Tory-led revolt against deeper integration, and cheer the derailing of the Lisbon treaty.

On the continent, similar centrist professionals make up the most pro-European group in many electorates. The reasons for this are complex, but the consequences are not. To find allies to match Tory Euroscepticism, Mr Cameron must leave behind parties led by Germany's Angela Merkel and France's Nicolas Sarkozy—and head right towards angrier, more nationalist parties.

Does it matter? British differences with Europe are real enough. Yet isolation from the German and French mainstream right may have costs. The Obama administration is said to link Britain's value as an ally to its weight in the EU: hence Mr Brown's new respect for Europe. Supporters of the EPP split insist the British will win new allies once the Tories break Strasbourg's smothering federalist consensus. But it is an amazing risk to run.

Charlemagne now writes a blog, which is open for comment at
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London economic summit

Gordon's Big Top

Mar 26th 2009
From The Economist print edition

The global ringmaster will get little applause at home as fiscal woes mount

Illustration by David Simonds

THE last time a global economic summit was held against a dire backdrop of capsized banks and sinking economies, a new American president was in the White House and Labour's first prime minister at 10 Downing Street. Hope abounded that the world's leaders could agree in London on concerted action to turn things round.

But the World Economic Conference attended by delegates from 64 nations in 1933 was an abject failure. Franklin D. Roosevelt chose not to show up but sent a "bombshell" message that sabotaged the temporary stabilisation of currencies, seen as a crucial first step towards renewed international co-operation. Far from reversing the move towards economic nationalism, the summit marked a further staging-post along the way to it. For Ramsay MacDonald, the British prime minister who by then headed a cross-party government, the event brought chagrin rather than glory.

Set against that dismal precedent, the Group of 20 (G20) summit on April 2nd could hardly fail to do better. Unlike Roosevelt, President Barack Obama will attend in person and is calling for more rather than less co-ordination to counter the downturn. The meeting will not be undermined by the international tensions arising from war debts and reparations that were so poisonous in the interwar years. But it will struggle to reach some profoundly difficult decisions.

Much is at stake for Gordon Brown, who must hold a general election by the middle of next year. His display of resolve in rescuing the banks last October brought a bounce in his poll ratings. For a while he basked in the warmth of global esteem as other countries followed suit and underpinned their banks too. More recently, however, the opposition Conservatives have extended their lead over Labour in the polls as job losses have brought home the intensity of the recession. Mr Brown is hoping that the summit, which will be held in London's regenerated docklands, will breathe new life into both his political stock and the British economy.

The prime minister's programme for the event includes crowd-pleasers such as a crackdown on tax havens and limits on banking bonuses. But there are three main goals: to provide more resources for the International Monetary Fund in order to assist crisis-stricken emerging economies; to avoid another financial meltdown through tougher regulation and more international oversight; and to ensure that countries around the world combat the recession by stimulating demand. Although the meeting involves a mix of developed and emerging economies, the main dividing line in the run-up to the summit has been the familiar one between America and continental Europe.

The IMF said earlier this year that it wanted to double its resources to $500 billion (£339 billion). When the finance ministers of the G20 met in the middle of March in Britain, they agreed that the fund's lending capacity should be boosted "very substantially". A week later EU leaders said they would make €75 billion ($102 billion) available. The prime minister can be pretty confident that he will score a success on his first objective for the summit.

Some progress is also being made towards the second goal of greater international financial oversight, mainly because Mr Brown has himself given ground. For years Britain has resisted calls for a common European regulator, fearing that it would introduce onerous new rules which would lessen the City's appeal to footloose financial firms. In the wake of the banking crisis, that doughty resistance has crumbled. On March 18th Lord Turner, the head of the Financial Services Authority, toughened up Britain's own approach to supervision but also backed a new body to co-ordinate regulation across the EU.

Although Mr Brown may be able to unveil some concrete advances towards the first two goals of the summit, success on the third looks more doubtful. That will be a particular disappointment to the Americans, who regard this as the most pressing task for the meeting. Their starting-point was that other countries should emulate their huge budgetary stimulus. But that got a dusty reception from European leaders such as Angela Merkel, Germany's chancellor. They concede that Europe may have done less in discretionary fiscal measures but point out that "automatic stabilisers"—the boost from higher public spending and lower taxation that happens anyway when economies weaken—are more powerful than in America, with its smaller state and social safety net.

Mr Brown's ability to broker a deal on this crucial question is weakened by the increasingly apparent fragility of Britain's public finances. Recent forecasts from the IMF showed that the budget deficit would reach 11% of GDP in 2010, the highest in the G20. On March 24th, the start of a whirlwind five-day trip to Europe and the Americas to mobilise consensus before the summit, Mr Brown's bargaining position was torpedoed at home. In an unusual public intervention before next month's budget, Mervyn King, the governor of the Bank of England, advised caution about further fiscal stimulus in Britain. In an additional blow, the Treasury was unable to sell all the government bonds it wanted to at an auction the following day—the first time this had happened since 2002.

Despite these rifts and setbacks, Mr Brown will probably be able to portray the summit as a success, unlike its unfortunate precursor in 1933. Even if it achieves rather less than is hoped, it will still mark a willingness to co-operate rather than a determination to retreat into isolation. That will allow gaps between the American and the European positions to be papered over.

And the very choreography of the event will play to Mr Brown's advantage. The images of world leaders, including Mr Obama, converging on London to try to sort out the international economy will underscore his version of the British recession: that it forms part of a global downturn for which he cannot be blamed.

Yet the summit will also highlight not just the extraordinary weakness of Britain's public finances but also the fact that the British recession will be one of the deepest. That will buttress the Conservatives' claim that Mr Brown was an imprudent chancellor who presided over an unbridled economic boom and bust. Despite the efforts the prime minister has made as global ringmaster for the G20, the British public is unlikely to give him much credit once the travelling circus of world politicians folds its tent.

Economic performance

Snakes and ladders

Mar 26th 2009
From The Economist print edition

Once-proud Britain is sliding down the league tables

GORDON BROWN hopes for a fine display of British leadership at the G20 meeting in London next week. Yet on one measure of national machismo, Britain is slipping uncomfortably down the league tables. It was bad enough that last year the country was overtaken by France and Germany in income per head (measured at market exchange rates). Now it is being passed by Italy.

Back in 1987, after adding 18% to its GDP by a statistical sleight of hand, Italy bragged about *il sorpasso* (rough translation: "Ha, ours is bigger than Britain's!"). Britain soon climbed back, thanks to consistently higher growth and a strong pound. By 2007 its GDP per head was 27% greater than Italy's.

But sterling's plunge against the euro—down 29% since its recent peak in January 2007—has changed that. According to forecasts by the Economist Intelligence Unit, a sister organisation of *The Economist*, in 2009 Britain will slip to 12th place (from 7th in 2007) among the 15 "old" members of the European Union, behind all except Spain, Greece and Portugal. Only Sweden, which like Britain spurned the euro, has fallen similarly (see table).

Overtaken
GDP per person at market exchange rates, $
Euro-area countries in italics

Rank	2009*	Country	Rank	2007
1	105,000	*Luxembourg*	1	105,900
2	56,540	*Ireland*	2	60,810
3	55,350	Denmark	3	56,920
4	46,830	*Netherlands*	5	47,450
5	45,410	*Austria*	8	44,590
6	44,060	*Finland*	6	46,600
7	43,420	*Belgium*	9	43,250
8	40,880	*France*	10	42,070
9	37,690	*Germany*	11	40,210
10	37,520	Sweden	4	49,490
11	35,390	*Italy*	12	36,140
12	32,890	**Britain**	7	46,030
13	30,740	*Spain*	13	31,860
14	30,100	*Greece*	14	28,470
15	20,800	*Portugal*	15	21,060

Source: Economist Intelligence Unit *Forecast

The picture is very different, of course, when the economies are measured using purchasing-power parity. This adjusts for cost-of-living differences between countries and is thus thought a better gauge of comparative living standards. By this reckoning, Britons remain 15% richer than Italians in 2009, and richer than the French and Germans as well. And sterling's depreciation, though embarrassing, may help Britain bounce back from recession faster than some in the euro zone—boosted, for example, by Italians flocking to shop in dirt-cheap London.

Crowd control at the G20

Brace yourselves

Mar 26th 2009
From The Economist print edition

What police can expect from protesters, and vice versa

ANTI-CAPITALISTS are billing it as “Financial Fools’ Day” and climate-change worriers are gearing up to protest against “fossil fools”. For London’s police, charged with protecting world leaders at the G20 summit and quelling the crowds who are massing to rail at them, April 1st is going to be a long day.

Police are expecting an “unprecedented” coalition of protesters to gather in the city’s financial district the day before the summit, to demonstrate against everything from Iraq to subprime mortgages. Groups last seen in the 1990s are thought to be unfurling their banners again, to take advantage of a force that is already stretched. The same week sees London host a World Cup football qualifier, a state visit from Mexico’s president and the Oxford and Cambridge boat race.

Protesters say the police are talking up the risks to provide an excuse for heavy-handedness. Most of the demonstrators will probably be no rowdier than the Oxbridge crowd (indeed, there will be quite some overlap). The fearsome Horsefolk of the Apocalypse, who are leading a group called G20 Meltdown, have revealed their secret weapons: “merriment, mirth and the love in our hearts”.

If only, say coppers, recalling a disastrous anti-capitalist jamboree in London ten years ago in which 50 people were hospitalised. The recent vandalism of the home of Sir Fred Goodwin, a failed banker and symbol of greedy incompetence, may be a taste of things to come. The police are taking no chances: next week’s operation will involve 10,000 officers across five forces and cost some £7.2m ($10.5m).

But a parliamentary report this week sounded a note of caution. The Joint Committee on Human Rights pointed to evidence that deploying riot police can “overheat” peaceful protests, and recommended the tactics of the Northern Ireland police, who have managed large crowds using officers in ordinary uniform.

It also criticised the creeping use of anti-terrorism powers against peaceful protesters, noting instances when police have used stop-and-search powers (greatly broadened under the Terrorism Act of 2000) to deter legitimate protest. At a recent demonstration against a new power station, police confiscated a bar of soap (on the ground that protesters could use it to make themselves slippery and evade capture) and a pensioner’s walking stick. Too often, it seems, police see it as their job to disrupt protests, rather than manage them.

That is particularly dangerous given the fact that much anti-terrorism legislation leaves a lot to officers’ judgment. A recent law made it an offence to elicit information about policemen “which is of a kind likely to be useful to a person committing or preparing an act of terrorism” (even if no such person exists). Could this include merely photographing a policeman? The government seems content to use ambiguity as an all-purpose deterrent.

The right to protest is further eroded by the growth of pseudo-public space, such as shopping centres, office plazas and other privately owned but publicly accessible areas, in which demonstrations are forbidden. London’s financial district is full of such squares and courtyards. It will be intriguing to see if the banks have the nerve to turf the demonstrators out.

Fighting terrorism

Getting metaphysical

Mar 26th 2009
From The Economist print edition

The government is targeting Islamist ideas as well as violence

"NOT just the methods" of Islamism must be confronted, said Tony Blair after the suicide-bombings in London in 2005, "but the ideas." The government's revamped counter-terrorism strategy, published on March 24th, shows continuing concern about the anti-Western ideology promoted by Islamists as well as the violence that is its darkest symptom.

Ministers have a sense of how to tackle the latter. Funding for intelligence agencies and anti-terrorism police will grow. There will be more co-ordination with counter-insurgency efforts in Afghanistan and Pakistan. Hotel workers and the like are to be trained (with dubious rigour) in how to respond to attacks.

The battle of ideas, however, sees ministers less certain and less unified. Britain has sought to prevent violent Islamism by backing faith-based community groups that, however reactionary, stop short of advocating terrorism. Only they have the "street cred" to win over impressionable youths, say advocates of this orthodoxy.

But in recent years the approach has been deplored as a short-sighted gambit that subsidises Islamist ideology while sidelining moderates. Some critics argue that the government has chosen the wrong interlocutors, others that Muslims should be addressed as individual citizens rather than as a defined interest group. A fault-line exists within and between government departments: Jack Straw, the justice minister, backs the status quo; Jacqui Smith and Hazel Blears, the home secretary and communities secretary respectively, want to deal with a new cast of characters.

Trailed as a victory for the champions of change, the new strategy, as revealed, strikes many as a hedge. The government will "challenge" rather than proscribe non-violent reactionaries. Even this will be left largely to a panoply of small public-sector bodies and faith-based groups with little central direction. The police will retain a large role—a mistake, says Policy Exchange, a Conservative-leaning think-tank, pointing to the constabulary's indifference to ideas and focus on short-term security. But the strategy does not make clear whether the state will continue actively to enlist reactionaries in the fight against *jihad*; some think that ministers will use this latitude to be more discriminating about whom they treat with.

Either way, the struggle within government continues. Ms Blears recently suspended relations with the Muslim Council of Britain, the biggest of the Islamic community groups, after a senior figure allegedly endorsed violence against foreign ships preventing arms from entering Gaza. Labour women, intolerant of Islamist views on gender, make up a disproportionate chunk of those demanding change. Ms Smith and Ms Blears have backbench allies such as Kate Hoey, Ann Cryer and Ruth Kelly (Ms Blears's predecessor and author of the foreword to the Policy Exchange report, a glimpse of the growing co-operation, often covert, between the reformers on each side of the party-political divide).

In a country where the threat level remains "severe"—notwithstanding whispers that it may be dropped a notch over the next year—a focus on foiling terrorist plots is understandable. And progress has, in fact, been made on matters of ideology. The "covenant of security" in the 1980s and 1990s, under which the authorities left Islamists alone as long they did not plot domestic attacks, has been abandoned, and the aspirations, if not the detail, of the counter-terrorism strategy suggest a state less hobbled than it was by a tendency to undervalue the power of ideas.

Yet reformers complain that many in Whitehall who have accepted intellectually the failure of the status quo lack the will to ditch a decades-old orthodoxy. Three developments could shake things up. A new government may have different ideas, though the Tories are not without their own splits on the issue. Lobbying by countries threatened by Islamist ideas and plots concocted in Britain could also shift the inertia. The shock most likely to shatter the status quo—another terrorist attack on home soil—is also the most dreaded.

Muslim education

A long, long lesson

Mar 26th 2009 | WALSALL
From The Economist print edition

For Muslim youngsters, studying their faith is a time-consuming business

LIKE every good school, Palfrey Junior urges its 360 pupils to spend time on extra-curricular things such as crafts, hobbies and special computer lessons. But here they have to happen before school starts; time after class is spoken for. When the bell goes in mid-afternoon, most pupils head straight to a *madrassa* to learn the Koran.

Palfrey Junior is a state school, with no religious affiliation. But the fact that 98% of its pupils are Muslim affects the ethos. A legal requirement for “mainly Christian” worship is met with generic “songs to God”. Swimming is segregated by sex; at the request of Muslim parents, there is no sex education and all food is halal. During Ramadan, pupils who fast are kept indoors in case they become dehydrated.

The conservatism of many Muslims in Britain’s Midlands also influences the tone. Some parents withdraw children from aerobics because they eschew music. Some women teachers wear a *niqab*, concealing their face, in the street; in school, only their hair is covered with a scarf.

Bob Poyser, Palfrey’s (non-Muslim) head teacher, finds the children “very spiritual”, with a deep belief in God. They like the Greek church next door, where the priest tells them of figures familiar to Muslims, such as Mary, the mother of Jesus, and the Archangel Gabriel. But though they study the same subjects as other state-educated pupils—Beowulf and the Tudors adorn the walls—these children spend a lot of time in a Muslim cocoon. They are drilled intensively in their faith outside school; what goes on inside school reflects both state policy and local social reality.

When Muslim education in Britain makes news, it mostly concerns the handful of children who attend schools that are formally Islamic, although the secular compromise at Palfrey Junior is far commoner. Perhaps 3% of the country’s 400,000 Muslim youngsters attend Islamic schools, of which there are at least 130, mostly started since 2000 and 90% of them fee-paying. Yet the existence of formally Muslim schools matters, for they subtly affect what occurs in ordinary ones.

Tahir Alam, a spokesman on education for the Muslim Council of Britain, says there is huge demand among Muslim parents for Islamic schools, partly because the academic results of the best of them are excellent, and partly because the state doesn’t offer what parents want. Their wish-list includes prayer facilities, segregated sport and science lessons that treat evolution only as a theory. Places at the few state-funded Muslim schools that exist are oversubscribed: there were 17 bids per place at one establishment in Birmingham.

Whether they go to a night school linked to a mosque or to a full-time Muslim college (like the 16 boarding “seminaries” run by the purist Deobandi school of South Asian Islam), young British Muslims devote many hours to learning their faith. Wherever these hours are spent, it adds up to an experience of life that differs vastly from that of other young Britons—and this complicates, at the least, official efforts to boost social cohesion.

So it may seem odd that the government, in this week’s analysis of the woes of British Islam, says mosques and religious schools must do more to help youngsters make sense of the world. But at the grass-roots the force of this point is clearer. For all the time spent on instruction, many young Muslims have never heard much about how to apply their faith to daily life.

That is partly because *madrassas* stress learning by rote, and sermons in mosques tend to be in Urdu or Arabic which few understand. In the words of Sadiq Khan, the cohesion minister, the failure of mosques and *madrassas* to communicate well with youngsters creates “ungoverned spaces” into which extremists step. (Listen to an interview with Mr Khan.)

Dealing with this by boosting—with cash or advice—the capacity of mosques and the schools they run is a

long shot. But life in some urban parts of Britain is so steeped in Islam that it needs to be well and responsibly taught: that, at any rate, is the government's calculation.

The Conservatives on education

It's still about schools

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The opposition plans to fight the next election in the classroom

IN 1997 it was "education, education, education". Schooling was again "Labour's number-one priority" in 2001 and "still our number-one priority" in 2005. In all three elections that Tony Blair fought and won, education came top of the list of public services to be "saved". Yet Britain is still drastically short of places in good state schools. Now, with another election to be held by June 2010, education is once again at the top of a political to-do list—this time, that of the opposition Conservatives.

Not only the issue but also the policies are familiar: Michael Gove, the shadow schools secretary, is "unashamed" in declaring that "we owe a significant debt to Tony Blair". Like Labour, his party talks of extending parents' choice and the ability of schools to respond to demand. It would create more of Labour's "academies" (state-funded schools with more autonomy). And it would extend Labour reforms that allow government money to follow pupils as they move school. (Listen to an interview with Mr Gove.)

But the Tories go further than Mr Blair, who was hamstrung by his party's old guard and the teaching unions. His academies were a series of bespoke projects in poor areas (only 133, individually authorised by central government); under the Tories, any successful state school could become an academy. Labour made local councils consider competing bids whenever they needed new schools; the Tories would allow charities, churches and parents to open new schools without asking for councils' permission—even in areas with plenty of school places. They would also reform funding so that schools that attract more pupils—especially poor ones—would get extra money. Existing private schools could qualify for the cash too, provided they join the state sector, eschewing both academic selection and top-up fees.

What politicians say about education is now almost inaudible beneath the clamour about financial regulation and fiscal stimulus. But schools matter to their electoral prospects. For most voters, schools offer their only extended encounter with state services. A party's line on uniforms, academic selection, the curriculum and so on can be taken to stand for its wider thinking on social issues. Schools are particularly important for the Tories, who are trying to reposition themselves as the party of social justice and champions of the neediest.

Mr Blair wasted much of his first term repeating the mantra "standards, not structures" and showering cash on schools, only to realise later that structures matter for standards and that, without competition and freedom to innovate, schools could spend any amount to little effect. When at last he got round to reforming structures, each battle with his own backbenchers was pitched and each victory partial. These lessons have been heeded: Mr Gove promises that, should his party form the next government, it would move fast, with a big education bill signalled in its first Queen's Speech. He points to the 900 schools that have opened in Sweden since similar reforms in 1992, and reckons that 200,000 new school places could quickly become available in England.

It is unclear, though, that Sweden's supply-side revolution can be replicated without letting private firms run state-funded schools, as that country does. (The Tories have decided that allowing schools to make profits from taxpayers would be a bad headline too far.) With public finances likely to be tight for years to come, this decision may constrain new capacity, since non-profit schools cannot finance start-up costs by borrowing against future income.

Most ominously, both Mr Gove and the Tories' leader, David Cameron, are fond of party-pleasing prescriptions, including policies for which proof of effectiveness is non-existent (school uniforms) or limited (insisting on synthetic phonics for teaching reading). Others are manifestly unworkable (letting head teachers kick out troublemakers with no right of appeal). The Tories may have learnt that incremental reforms soon run out of steam. They may not yet understand what it means to give schools true independence.

Parliamentary sleaze

Disallowed allowances

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The latest expenses row in Parliament will alienate voters still more

Illustration by David Simonds

"NO IFS, no buts," says the Department for Work and Pensions (DWP), on posters encouraging citizens to shop their neighbours for benefit fraud. How embarrassing, then, for Tony McNulty, a minister at the DWP, to be accused of exploiting taxpayers himself. After an article in the *Mail on Sunday*, Greg Hands, a Conservative MP, reported Mr McNulty to the Committee on Standards in Public Life, Parliament's sleaze watchdog, for claiming £60,000 in expenses to which he may not have been entitled.

The allegations concern the so-called second-homes allowance, which gives MPs from distant shires up to £24,000 a year to maintain a base in London. Mr McNulty lives in Hammersmith, west London. Until January he was claiming for a second home (in which his parents live) in his nearby constituency in Harrow. Mr McNulty says he uses the house for his constituency work, but admits he spends only a couple of nights a week there and that the arrangements look "odd".

Oddities abound. Dawn Butler, a government whip, is facing similar questions about houses she maintains in Wembley and Stratford. Jacqui Smith, the home secretary, is being investigated by the sleaze watchdog for calling a London town house owned by her sister her primary residence, while claiming £116,000 over six years in second-home allowances for the constituency house that her husband and children inhabit. Many of the MPs who claim the allowance represent areas from which thousands of workers commute to London.

Mr McNulty has undergone a public conversion, and now espouses reform. Most of the accused insist that they have abided by the letter of the law. That will cut little ice with voters, who know that the basic MP's salary of £63,291, while modest compared to the upper echelons of the public sector, tells only part of the story. Parliamentary pensions are the best in the land (unsurprising, since MPs can vote to set them), with double the accrual rate of those in the private-sector and based on final salaries to boot. Besides second-home allowances, other expenses totalling £141,000 a year for staff, communication, computers and so forth, plus provisions for cars and a payment upon their ejection from the House, provide room for creative accounting. A poll for politicshome, a website, found that only 31% of voters trust their representatives not to cook the books.

Aware of the public's anger, Gordon Brown has welcomed the watchdog's decision to review the entire expenses system (mild reforms were agreed upon last year). But some question the prime minister's commitment: in January he tried to exempt MPs' expenses from freedom-of-information laws, only to back down when he failed to win support from the Tories and Liberal Democrats.

In the meantime, many MPs have ideas of their own. One is to forbid members with constituencies near London from claiming their second-home allowance (25 inner-London MPs are already ineligible). Alan Duncan, the shadow leader of the Commons, favours abolishing housing allowances entirely and raising MPs' basic pay. That has the advantage of simplicity. But with the news full of private-sector sackings, pay

freezes and cost-cutting, it will be a tough sell to a public made cynical by such borderline shenanigans.

Bagehot

Coming clean

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The Tories must choose between frankness and opacity on tax and spending

Illustration by Steve O'Brien

AT FIRST it looked like a daring counter-attack that turned the tide of combat. George Osborne's pledge in 2007 to raise the threshold for inheritance tax to £1m ($2m at the time) galvanised the Conservative Party and helped to avert a general election that might have throttled it. Eighteen months and a slump later, his sally looks to have left the party's flank dangerously exposed.

The Tories are in a pickle over taxing and spending. They are not the only ones—witness the remarks by the governor of the Bank of England on the need for fiscal caution, delivered just as Gordon Brown set out on a round-the-world lobbying mission for further stimuli. But whether and how their sums add up is crucial for the Tories, encumbered as they have been for much of the past 20 years by toxic auras of cold-heartedness and incompetence. Their fiscal policy needs to resolve two tensions, one involving internal politics and a second created by the downturn.

The first tension is common to most insurgent parties: the need to retain the faith of the base, so as not to appear fractious, while broadening the party's appeal enough to win power. Managing it involves a familiar two-step, whereby the leadership alternately conciliates and peeves its core constituency, sometimes intentionally. Since for many Tories tax-cutting and state-shrinking are the party's main purpose, for David Cameron, the Tory leader, and Mr Osborne, the shadow chancellor, these manoeuvres typically involve tax. A recent eruption, in blogs and beyond, was provoked by two sensitive issues: first, the affirmation that the Tories were likely not to reverse the new 45% rate of income tax for earnings over £150,000, due to take effect in 2011; then the blurted remark from Ken Clarke, the shadow business secretary, that the inheritance-tax cut was a mere "aspiration". (The official line is that the pledge stands, but the timing is vague.)

The second tension is between dreams and reality—in other words, between the Tories' pre-crunch aspirations and the economic plight they will confront if they win the election. They will face an awesome deficit, public-sector debt heading for £1 trillion, unemployment flirting with 3m, inflated welfare bills and reduced tax receipts. That will mean downplaying some of the ideas that Mr Cameron emphasised during his first couple of years as Tory leader—the sort of things that, for many voters, first made him seem cuddly enough to embrace. Others besides the ardent tax-cutters must be disappointed, sooner or later.

There are two plausible strategies that Mr Osborne and Mr Cameron can adopt in response: frankness and opacity. At the moment they are combining them, not altogether successfully.

Much of the right-wing commentariat recommends a kind of strategic fiscal vagueness. Accordingly, Mr Cameron should adumbrate painful decisions; he should sketch out the principles that will inform them; but he should not be drawn into spelling out what exactly they will be. The goal is to seem sombrely responsible and prepare the country for a spell of post-election austerity, without alienating too many voters. Margaret Thatcher's sketchy manifesto of 1979 is sometimes cited as a precedent (though it is an instructive one in another way too: her unadvertised economic medicine made her desperately unpopular).

Mr Cameron and Mr Osborne have partially followed this opaque prescription. Their new slogan is "fiscal responsibility with a social conscience": not the catchiest, perhaps, but one that conveys a sense that their priorities in government will be addressing debt, which Mr Cameron says will be his "overriding objective", without grinding the poor. The tax-cutting Tory base is being let down gently; but the old formula about "sharing the proceeds of growth", with its unrealistic promise of jam for everyone, has been dropped. Though they are imprecise about the future, the pair are talking with refreshing directness about historical over-borrowing, by homeowners as well as Mr Brown.

Frightening the horses

Yet, intellectually and politically, they have revealed both too much and too little. Mr Cameron now says his government would spend less than Mr Brown's proposes to. But he is still only talking about trimming the growth of spending rather than cutting it. The savings he has identified (such as scrapping the ID-card scheme) are small; some of his own reforms will require lubrication. So when he vows to pay down debt, what he really means is that he will try to cut the deficit and wait for the economy to rebound—perhaps reducing debt in a second Tory term. The danger is that the gap between the tough rhetoric and puny small print makes the Tories look incoherent and amateurish.

Just as damaging are the few frank proposals that have slipped out. One is that dashing inheritance-tax scheme, which might prove less popular in an entrenched recession than it once seemed, especially when relentlessly characterised by Labour as a gift to the rich from the party of the rich. Then there is the inchoate promise to subsidise marriage. As well as incoherent, this platform looks unbalanced—certain only, Labour will say, in its favouritism towards pet Tory causes, omens of greater injustices to come (the closing of hospitals, reopening of workhouses, etc). The Tories like to think that scaremongering about cuts is an electioneering tactic whose time has passed. Perhaps.

They need, fairly soon, to choose. Either they must renounce their previous commitments, explaining that recession has nullified them, and take the flak from the base. That might be the safer bet. Or they must flesh out their skeletal programme with rounded plans for balancing the books—risky, but no more so than the freedom to parody and invent that the current mix of frankness and opacity gives their opponents. That might reassure the country that they genuinely know how to clear up the mess.

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NATO and its future

Have combat experience, will travel

Mar 26th 2009
From The Economist print edition

The Atlantic alliance at 60 is busier, and going further afield, than ever—but some members want to refocus on threats nearer home

Reuters

FOR the past six decades, the pledge by America, Canada and their European friends that "an armed attack against one or more of them in Europe or North America shall be considered an attack against them all" has kept the West together. That vow—in Article 5 of NATO's charter—helped to see off Soviet communism. And now the alliance is busier than ever: it keeps the peace in the Balkans and guards the sea lanes to Europe. Above all, it is fighting a tough war in Afghanistan.

And it is a popular club. Membership has grown from a cold-war total of 16 to 26 today; more hope to join. France, which left NATO's military structure in 1966 (though not the alliance itself), has decided to rejoin. And yet as NATO celebrates its 60th birthday in early April, with events straddling France and Germany to prove its success in transcending old feuds, the alliance is wrestling with an identity crisis that has lingered since the cold war ended.

NATO is losing its role as the main forum for strategic dialogue between America and Europe. The economic crisis is being dealt with in the G20; the threat of a nuclear Iran is being handled by a small club of six powers; the security of energy supplies from Russia is better addressed by the European Union; and intelligence co-operation against terrorism is done bilaterally. "Military operations have become our *raison d'être*," says one senior NATO insider, "I intervene, therefore I am."

In the 1990s NATO's mantra was "out of area or out of business". But few allies imagined, as they pushed the Serbs out of Kosovo in 1999, that within a few years they would be fighting along the Hindu Kush. Indeed, NATO got into its biggest war almost by accident. When America was attacked in September 2001, NATO formally invoked Article 5 for the first time. But the Bush administration did not want to be encumbered by a formal alliance. Instead it cherry-picked the allied assets it needed to help topple the Taliban.

Only later, as America turned its attention to Iraq, did NATO take over the stabilisation force in Afghanistan; it started in Kabul in 2003, then spread across the country. NATO's entry into the south of the country in 2006 coincided with an upsurge in fighting; maybe the Taliban saw NATO as an easier foe than America alone. The insurgency has grown every year since.

America's president, Barack Obama, says NATO is not winning and, having ordered 17,000 more troops to Afghanistan, will discuss with his allies a new strategy to turn the war around. Many say NATO's credibility, and its very future, are at risk.

Afghanistan has exposed two big rifts among the allies. First, one between countries willing to take on the Taliban (mainly America, Canada, Britain, the Netherlands and Poland) and most of the others. Then, even among the more martial states, there is one camp that sees global *jihad* as the main threat to NATO, while another frets more about the old adversary, Russia.

Last year's war between Russia and Georgia (which has been promised eventual NATO membership) stoked a debate over how far "out of area" NATO should go; and over how much it should focus on Russia rather than "asymmetric" threats like terrorism. Some pundits noted that Georgia's best forces had been trained by America to deal with insurgents, at home and in Iraq, not to fight conventional war.

Home or away?

Nobody suggests it is time to quit Afghanistan. And the Obama administration's talk of a "reset" in ties with Russia has eased the tension, for now. But the ex-communist NATO countries, in particular, want more effort on guarding their soil. Many whisper that they joined NATO for protection against Russia, not to fight Afghans. Even an old ally like Norway, worried about Russia's polar ambitions as the ice melts, thinks it is time to rebalance priorities. "NATO appears to our publics to be an organisation that takes our sons to send them to Afghanistan," says Norway's deputy defence minister, Espen Barth-Eide. Focusing on home missions, he says, would make NATO relevant to Europeans, and ultimately boost support for away missions.

Such "neo-traditionalists" want NATO's planners at SHAPE (Supreme Headquarters Allied Powers Europe) to make credible plans for the defence of NATO's borders, and surrounding seas and airspace. They say NATO should conduct more visible exercises to rehearse the response to threats at home, and improve the ability of bases and ports to receive NATO reinforcements.

The problem for NATO is whether such hints of the old, cold-war posture might not trigger confrontation with Russia. In the view of Mr Barth-Eide, however, such plans and exercises may help prevent NATO from over-reacting to a crisis.

For years after the cold war ended, NATO's threat assessment, contained in a document known as MC 161, saw no Russian threat; that is why there are few contingency plans to defend new allies. For instance, SHAPE drew up plans to defend Poland (inadequate ones, say senior Poles), but none exists to protect small Baltic states that feel particularly vulnerable. This is changing slowly; NATO's outgoing commander, General John Craddock, started some informal "prudent planning" for territorial defence that could, in coming months, become official contingency plans, if friends of Russia, like Germany and Italy, can be made to agree. Russia, General Craddock has said, seeks to weaken Euro-Atlantic institutions and "has shown readiness to use economic leverage and military force to achieve its aims".

The balance between NATO's home and away missions will be addressed in a "Declaration of Alliance Security", which should be approved at the anniversary summit. This should then form the basis for a more detailed new "strategic concept" to be drafted for approval next year.

But some in NATO think the backlash against expeditionary war is overdone. They say nothing in intelligence reports suggests that Russia's military posture is now more threatening; a confrontational stand by NATO would just abet the Kremlin's hawks. In any case, they say, the same expeditionary forces would be needed in any crisis, whether in Afghanistan or, say, to defend Estonia. "Some countries feel insecure for reasons going back centuries," says a NATO insider. "You can't exorcise history through contingency planning."

Britain has proposed a practical idea to reassure nervous allies. It suggests a NATO "solidarity force", made up of small contingents from several allies, that would act as a rapid-reaction unit to help countries in need. It would have many nationalities, to deliver a political message, but not too many teeth, so as not to provoke Russia.

It would be, in effect, a smaller version (perhaps 1,500-strong) of NATO's now-defunct Allied Command Europe Mobile Force-Land, a brigade-sized force (about 5,000 soldiers) whose role was to act as a tripwire in the cold war. The aim, commanders now admit, was to have many "different flags on coffins" at the start of a war, so as to ensure that allies could not dodge their commitment to joint defence.

The new solidarity force, if approved, could form the first echelon of the troubled NATO Response Force (NRF), supposedly a powerful 25,000-

AP

strong mailed fist held at high readiness but far from ready. Britain hopes that, with the solidarity force available to deal with a crisis at home, allies might agree to use the rest of the NRF for other tasks—for instance, temporarily to reinforce NATO in Afghanistan. The risk is that the solidarity force could simply cripple the NRF by diverting scarce resources.

Belgrade: not everybody loves us

The NRF was created in 2002 as the vehicle for the "transformation" of NATO from a large, static force designed to fend off massed Soviet armies into an agile expeditionary outfit. Hans Binnendijk, of America's National Defence University, says: "The NRF is a force that should be on steroids, and instead it's on life support."

The NRF has failed to fill its roster, and has been informally cut back. Expeditionary war needs airlift, sealift, jets, helicopters, drones and other "enablers" like field hospitals. Such items appear year after year on NATO's wish list, but are always scarce. One reason: countries that have such assets are using them in Afghanistan.

Any hope that European countries might invest more in defence for Europe's sake has vanished. An EU plan for a 60,000-strong force has shrivelled into a vow to maintain two small "battlegroups" (formations of about 1,500 troops) at high readiness. Even these can be hard to deploy; although the EU runs several small military and security operations, the United Nations' call last year for the EU to send forces to Congo was quietly declined.

America spends about 4% of GDP on defence, but only four European countries (Britain, France, Greece and Bulgaria) meet NATO's minimum of 2%. Partly as a result, America in 2007 deployed about 14% of its troops on operations, while European countries could barely muster 4%.

For all the worries about NATO, two leaders personify hope: Mr Obama, who is very popular in Europe, and President Nicolas Sarkozy, whose decision fully to rejoin NATO should end French dreams of making the EU a counterweight to America.

In truth, rivalry between NATO and the EU has been an absurdity. NATO provided the stability that helped Europe to integrate. For ex-communist states, NATO has been a stepping stone into the EU. Both clubs are based in Brussels, and share 21 members, yet they cannot co-operate formally (on the ground, things are better).

Ending the club rivalry

At first this reflected rivalry between America, which leads NATO, and France, which wanted a separate EU defence. But since France's line changed, other tensions have resurfaced, like the feud between Turkey (a NATO ally) and Cyprus in the EU.

Until recently NATO has largely monopolised military power, while the EU has been an economic entity. But in Afghanistan NATO found that might alone cannot crush an insurgency; development and state-building are as important.

The EU, for its part, sees that soft forms of influence must be complemented by some hard power. So at a time when the recession is squeezing both defence and aid budgets, the two clubs need each other. A report by the European Council on Foreign Relations, a think-tank, says America's military "surge" in Afghanistan will fail without an EU "civilian surge"—including police trainers and monitors for next August's elections. Yet the EU has trouble finding such experts; it has so far recruited just 200 of its planned 400 police trainers.

A study by four American institutions banding together as the Washington NATO project lists five strategic priorities for America and Europe. They are tackling the economic crisis; building "resilience" in homeland security; dealing with global security threats by stabilising Iraq and Afghanistan and halting the proliferation of weapons of mass destruction; spreading democratic stability across Europe; and keeping "a habitable planet". NATO will not be able to do much of this; if anything, the EU has a bigger role.

The authors argue that NATO is “indispensable yet insufficient” for dealing with global problems. They want America and the EU to sign a “new framework” next year. This would be “anchored by a clause of mutual assistance” in case of terrorist attack or other disaster—in other words, a bit like the NATO treaty.

Correction: OECD

Mar 26th 2009
From The Economist print edition

In an article last week, "The critical issue of safety", we wrongly called the OECD's Nuclear Energy Agency the "National" Energy Agency. Sorry. This error has been corrected online.

Economist.com BUSINESS

The Tata Nano

The new people's car

Mar 26th 2009
From The Economist print edition

Why the Nano alone cannot solve the mounting problems of its maker

Getty Images

IS THE Tata Nano the car the world has been waiting for, its launch this week a moment not only of automotive history but of real social significance? Or will it prove to be no more than a dazzling digression for its troubled maker? Fifteen months after its unveiling at the Delhi motor show, the cheapest and most talked-about car of modern times has gone on sale. The plainest version costs 1 lakh (100,000) rupees ($2,000), as promised by Ratan Tata (pictured above), the head of the Tata group and the driving force behind the project. At half the price of the next cheapest car on the market (the aged Maruti 800), the Nano will bring car ownership to people who would never previously have considered it. But it has not been an easy gestation.

Last October Tata Motors, India's biggest indigenous vehicle-maker, abandoned the $292m factory that it had built in Singur, West Bengal, to make the Nano. Violent protests by farmers, stirred up by local politicians, over the state's forced purchase of their land for the 1,000-acre site had left Tata with the choice of buying the protesters off or walking away. After much soul-searching, and having found an alternative site at Sanand in Gujarat, Mr Tata opted to start again. The decision has been costly. Some of the original investment has had to be written off and the new factory will cost $389m. Suppliers who had been setting up near the Singur operation have also had to start again.

As a result the Nano's launch is seven months behind schedule. When Sanand opens next year it will have an annual capacity of 250,000 units, extendable to 500,000. But for the moment an existing factory at Pantnagar in northern India has been converted to produce the car at a rate of 50,000 a year. With demand expected greatly to exceed supply, the first 100,000 Nanos will be allocated by lottery.

Tata is making the best of a bad lot by asking prospective buyers to place deposits that come close to the full price of the car. Someone ordering the basic model will have to find $1,875 to place an order for a car with an on-the-road price (including taxes) of around $2,500. Anyone opting for better-kitted-out versions with air conditioning and electric windows will have to stump up nearly half as much again. For those who need credit, Tata has helpfully lined up 15 "preferred" banks and lenders.

In the rush to get their hands on the first Nanos, customers are expected to place deposits worth up to $1 billion—money Tata will hold on to for at least three months before the allocation is completed. Those wishing to be considered for the second batch of cars will be paid interest (at well below the market rate)

after a year, but Tata will get to keep at least $200m interest-free while it ramps up production.

That is cash that Tata Motors could certainly do with. Ravi Kant, the firm's boss, insists that earlier predictions that it will lose money on the Nano are wide of the mark: raw-material prices have helpfully fallen, a recent excise cut from 16% to 8% is not being passed on to customers and the majority of Nanos sold are likely to be the fancier, more profitable models. But according to Deepak Jain of Edelweiss Securities in Mumbai, Tata Motors faces a funding gap this year of at least $3.4 billion. About $1.4 billion of that is in the form of short-term loans raised for working capital, and $2 billion relates to the bridging loan taken out last year to finance its $2.3 billion purchase of Jaguar Land Rover (JLR), a British premium carmaker, which must be either repaid or refinanced in June.

In the last quarter of 2008 Tata Motors reported its first net loss for seven years, of $54m, as sales of medium-to-heavy commercial vehicles in India fell by nearly 60% and its share of a flat passenger-car market failed to improve, despite the launch of the well-received new Vista hatchback. During the same quarter an attempt to raise $885m through a rights issue ended up with Tata Sons, the group holding company, taking up 61% of the ordinary shares.

Tata Motors' credit rating is also under pressure. This month Moody's cut its rating from B1 to B3 with a negative outlook, the second cut in five months, and this week Standard & Poor's reduced it from BB- to B+. Mr Kant expresses confidence that despite the difficult credit-market conditions Tata Motors can handle the situation. But JLR adds substantially to his difficulties. Through sheer bad luck, Tata's purchase of JLR in June 2008 coincided with the meltdown in rich-world car markets. "We had a strong start to 2008, with record sales," says David Smith, JLR's chief executive, "2007 was Land Rover's third record year, we made £327m profit, and more in the first half of 2008, so we were very profitable."

Since then, however, sales have fallen 22% by volume despite a strong performance (albeit from a low base) by Jaguar, thanks to the success of its new XF saloon. Land Rover, the cash cow of the group for several years, has seen sales slide by a third. Since the summer, Tata has ploughed $1.2 billion of working capital into JLR, 1,800 jobs have been cut, a pay freeze has been agreed on with the unions and production has been slashed by up to 60%.

The picture is not entirely bleak at JLR. Mr Smith says that inventories have been largely run down and production will resume after Easter at 70-75% of capacity. Jaguar's XF is winning in consumer-satisfaction surveys, and Mr Smith is confident that the new XJ luxury saloon will be launched on time in July. Meanwhile, a JLR team is working with Tata in India to source cheaper parts.

But without a recovery in its main markets, JLR will remain vulnerable. This week Mr Tata warned that JLR would not be able to carry on as it is without £500m ($730m) in loan guarantees from the British government. Mr Kant insists there is no buyer's remorse on Tata's part. But JLR is so big compared with the rest of the business—by next year it will contribute more than half of Tata Motors' revenues, according to some estimates—that its fate will shape that of its Indian parent.

In a different way, the same is true of the Nano, but the risk is as much reputational as financial. Rakesh Batra of Ernst & Young India, a consultancy, says rivals are watching closely, and Tata must succeed when it comes to quality, service and the availability of parts if the Nano is not to fall flat on its pert little nose. Undaunted, Mr Kant believes that the Nano is tapping into a social and economic revolution in India. "There is a paradigm shift under way in the country," he says. "Through the explosive growth of cellphones and television, the aspirations of rural people are converging with urban people." He also points to India's plan to connect every village with a population of more than 1,000 to the road network by 2010. Nor are his ambitions for the Nano limited to India. The Nano Europa, a plusher version that meets Western safety and emissions standards, will go on sale in 2011, with an American version due a year or so later. "The interest in the Nano", he says, "is worldwide."

Inside the Tata Nano

No small achievement

Mar 26th 2009 | PUNE

It's cheap. But what is the Nano like to drive?

THE cacophonous capillaries of India's infrastructure may be about to get a lot more clogged. By the end of 2010 there could be as many as 300,000 Tata Nanos on India's roads. Well before its launch, the tiny car had become an object of loathing for environmentalists (unfairly—it is one of the cleanest vehicles around). But for potential buyers, what matters is whether it is any good.

Despite the Nano's size (it is a bit over ten feet, or three metres long) its interior is surprisingly spacious. This is no accident. The car is the pet project of Ratan Tata, the Tata group's revered chairman, who is over six feet tall. Accordingly, the Nano is optimised for the 95th percentile of American men. In South Asia, this makes the car downright cavernous. When it comes to performance, the Nano goes from zero to 100kph (60mph) in a languid 30 seconds, but it is surprisingly enjoyable to drive. And with a petrol consumption of 67mpg, few cars can match its fuel-efficiency.

But the Nano's real beauty lies in its design. Putting the engine at the back means the car's footprint is 8% smaller but provides 21% more interior space than that of the Maruti 800, the next cheapest car on the Indian market, which costs twice as much.

The Nano has its flaws. When left open, the doors do not remain ajar, and the rear hatch does not open at all (to increase the car's strength and safety). There is no radio or glove compartment. The interior is made of cheap grey plastic chosen more for its durability than its aesthetic or tactile appeal. And the engine sounds like a lawnmower.

But the Nano does not shake as it approaches its top speed of 105kph, and feels reassuringly stable. There is a crumple zone at the front, and a bar across the car, on which the front seats are mounted, improves rigidity in the event of a side impact. (It also doubles as a footrest for passengers in the back.)

Tata has filed for three dozen patents for the Nano, mostly for innovations that are out of sight. The designers found that there was no room for the battery in the back with the engine, for example. Placing it under the bonnet at the front, along with the spare tyre, would have required long, costly copper wires. To balance the car and save money, they put the battery under the driver's seat—an example of the smart but ascetic engineering that can produce an impressive car for $2,000.

Watch an audio slideshow about the Nano.

Shipbuilding

Sink or swim

Mar 26th 2009 | HONG KONG
From The Economist print edition

A deluge of new ships pours into a drowning industry

LIKE unwelcome guests who will not leave, 453 container ships, 11% of global capacity, now float outside the harbours of Hong Kong, Singapore and other South-East Asian ports. They are unwanted by their hosts as well as their customers. In recent days China has quietly let it be known that it wants to rid its territorial waters of these nautical squatters.

Only five years ago huge demand from China meant that all these ships, and more, were desperately needed. This had a dramatic impact first on shipping rates, and then on supply (see chart). Between the end of 2006 and July 2008, shipyards received enough commissions to double the world's fleet. Now these new ships—more than 9,000 vessels—are taking to the water just as demand has collapsed. The world is awash with ships.

To see how the recent boom and bust has affected value, a Hong Kong broker cites a 150-tonne "Cape class" ship that sold in 2003 for $18.5m in the used market. Critical to the price was the prevailing charter rate, then $15,000 a day. By last summer this had risen to $175,000 a day, and an identical ship sold for $85m. Rates peaked shortly thereafter at $300,000. Today rates are back where they were in 2003. Rather than try to find a buyer for another identical ship, albeit one that needed repairs, the owner dumped it for $7m to be used as scrap.

Orders for new ships have, not surprisingly, collapsed and scrutiny has shifted from what can be bought to what can be cancelled: nothing, it turns out, without great effort. South Korea's shipyards, the global leaders, have learnt from previous busts. They typically demand 20% up front, a further 60% during construction, and the final 20% payment upon delivery. Walk away and you lose a fortune.

These shipyards have good reason to play tough. Along with a loss of revenue, cancellations cause operational chaos. Worse still, orders are booked in dollars, but to cover local production costs shipyards buy forward currency contracts, transforming their obligations into won. The contracts are paid off in dollars by the buyers. But what if the buyer cancels? Analysts are warning that the resulting demand for dollars to unwind currency contracts, estimated at $10 billion-30 billion, will put further pressure on the won.

Buyers, meanwhile, have their own pressing problems. Martin Stopford, managing director of Clarkson Research, a maritime-research firm, estimates the backlog in shipyards at $526 billion. Some of this comes with first-class payment guarantees, but not all. That requires large amounts of credit, largely from banks which are hardly in a generous mood and are fully aware that their collateral, if the buyer stumbles, has just depreciated.

Given mutual interest in survival, yards and ship owners are no doubt discussing delays. These talks are typically kept quiet, but Cosco Singapore, a big shipbuilder, recently said that the construction of 30 bulk carriers had been deferred or cancelled. Steve Man, an analyst at HSBC, says this is the tip of the iceberg. He thinks more than half the deliveries for 2010 will be delayed—and shipyards will agree because the alternative is no work after 2011.

Weaker shipyards are already being weeded out. Two South Korean shipyards that started up in response to the boom have recently collapsed: SNC Shipbuilding defaulted on a key loan on March 17th, and C& Heavy Industry said on March 24th that a Malaysian buyer had emerged to take over its assets. Many new shipyards are thought to have closed in China without so much as a yelp.

Theoretically the fall in prices should trigger a contraction of supply, as older ships are scrapped and new orders are cancelled. In practice, however, shipyards usually complete ships that are under construction, even if the buyer walks, in the hope of selling them to someone else.

And shipbuilders have strong government support: in China they are beneficiaries of the $585 billion stimulus package, and domestic firms are being encouraged to pick up any orders cancelled by foreign buyers. Not to be outdone, India and Vietnam are subsidising the expansion of their own shipbuilding operations. More new vessels will merely widen the circle of losses, extending it from builders to shipping lines themselves, and back to even the strongest builders as competition intensifies. Rather than a bail-out, what the industry really needs is for some participants to sink.

Oil mergers

Well matched

Mar 26th 2009
From The Economist print edition

Oil firms have started buying each another again

Bloomberg

WHEN the going gets tough, the solvent get buying. That, roughly, was the philosophy of the titans of the oil industry last time the price of their product plummeted, in the late 1990s. Hunting for oil had become less profitable thanks to the falling price, whereas preying on rivals had become easier, thanks to plunging share prices. Thus Exxon Mobil, Chevron Texaco, BP Amoco and TotalFinaElf were born. So when Suncor and Petro-Canada, two big Canadian oil firms, announced a C$19.3 billion ($15.8 billion) merger on March 23rd, the industry's biggest since 2006, speculation mounted that another wave of deals might be imminent.

Suncor and Petro-Canada say the merger will help them withstand the trying times. The bosses of the two firms think they can save C$300m a year on operating costs and C$1 billion a year in capital expenditure. These savings are possible thanks chiefly to the two firms' complementary investments in Canada's tar sands, where oil is found in a particularly impure and viscous form, requiring a lot of expensive processing. The two firms plan to share pipelines and other infrastructure at existing facilities and future ones.

The two companies also hope their merger will help reduce inflation in the oil-sands region, which took off amid a mad rush to develop new projects when the oil price was high. Petro-Canada recently delayed a development called Fort Hills after the projected cost rose from C$14 billion to C$25 billion in just over a year. It believes the merger will help reduce the bill again by dampening competition for scarce labour and equipment.

Tar-sands operations are a natural focus for consolidation. They are expensive to run and so are more exposed to the falling oil price. At the very least, tar-sands firms will struggle to finance expansions with the oil price so low. But Canada's tar sands remain an attractive investment because they provide long-lived reserves in a stable country—a rarity in the oil business these days. That is why Total (as it is now known) recently offered to buy UTS Energy, a tiddler that is one of Petro-Canada's partners in the Fort Hills project.

Much the same logic applies to takeovers of coal-bed methane firms, which extract natural gas from coal deposits. BG, a British gas firm, has just succeeded in buying an Australian coal-bed methane firm, Pure Energy Resources, for A$1 billion ($729m). Last year it spent A$6 billion on another, Queensland Gas. ConocoPhillips and Royal Dutch Shell have also made recent investments in coal-bed methane.

Indeed, over 40% of takeovers in the oil and gas business last year involved "unconventional" resources such as tar sands and coal-bed methane, according to Chris Sheehan of IHS Herold, a research firm. He expects more such deals this year, as the industry's giants snap up unconventional reserves that their

smaller, cash-strapped owners cannot afford to develop.

But Mr Sheehan does not expect the giants of the industry to snap one another up, as they did in the blockbusting deals of the 1990s. For one thing, they are already so big that further mergers would raise competition concerns. Moreover, with the exception of Exxon Mobil, which has tens of billions stashed away, they would struggle to raise the money. Instead, middling firms are likely to be the main targets. Rumours are rife, for example, of an imminent bid for Santos, an Australian firm with several liquefied natural gas projects in the works. And the Western oil majors are not the only buyers on the prowl: in recent years state-owned oil firms from countries such as China and India have become much more acquisitive.

Mobile telecoms

Sharing the load

Mar 26th 2009
From The Economist print edition

A flurry of deals suggests that mobile networks may become a shared utility

WILL mobile-phone networks become a utility of sorts, shared by mobile operators and run by the firms that make telecoms gear? Until recently such a question would have seemed otherworldly. But after a series of deals it no longer seems so far-fetched. On March 23rd Telefónica and Vodafone, two of the world's largest operators, said that they would share network infrastructure in several European countries. And three big European operators—France Telecom, KPN and Vodafone (again)—have recently decided to outsource the running of their networks in some countries to equipment-makers: Nokia Siemens Networks, Alcatel-Lucent and Ericsson respectively.

Neither network-sharing nor outsourcing is new. But they used to be marginal phenomena. Sharing, for instance, was mostly limited to "site sharing" in rural areas, in which operators use the same antenna masts and equipment cupboards. Only in developing countries, where capital is scarcer and networks have to be built quickly, have sharing and outsourcing been more common. In October Chinese regulators ordered the country's operators to share parts of their networks to curb duplication in investments, for example.

Such practices are now becoming more widespread in developed countries as the financial crisis puts pressure on operators to cut costs and to reduce their need for capital. In Britain, for instance, O2 (owned by Telefónica) and Vodafone expect to be able to reduce the number of the sites that make up their networks by about 25%. As for outsourcing deals, they can cut costs by at least 10%, say industry analysts. Because equipment-makers run more than one network, they need fewer staff, have lower overheads and can apply cost-saving tricks that have been shown to work elsewhere.

But there are other motives, particularly when it comes to network-sharing. Governments are prompting operators to hook up, either by introducing environmental regulations that make it more difficult to set up new network sites, or by extending universal-service requirements. In Britain, for instance, the government may soon require operators to provide blanket mobile-broadband coverage, which is expensive for a single operator in rural areas. In addition, the rapid uptake of mobile broadband has operators looking for ways to limit the increasing costs of hauling traffic to and from the internet. This is why Telefónica and Vodafone want to share not just sites, but "backhaul" transmission links.

However, operators are reluctant to share one thing: the radio gear, known as the "radio access network" (RAN), that communicates with subscribers' handsets. Telefónica and Vodafone have ruled out such sharing, at least for now. One reason is that firms which have competed for years on the quality of their networks still see the RAN as a source of advantage. Moreover, regulators in many countries do not want operators to get too chummy, because it could limit competition. In some countries RAN sharing is not allowed.

Yet these barriers will be overcome, says Margaret Rice-Jones, chief executive of Aircom International, a telecoms consulting firm. Ultimately, she predicts, mobile networks will be shared and outsourced—much as electricity grids and gas pipelines are. The next generation of mobile networks, which will offer high-speed internet access based on technologies called LTE and WiMAX, will be built with that in mind. Operators, for their part, will increasingly focus on things such as branding, segmenting customers and service.

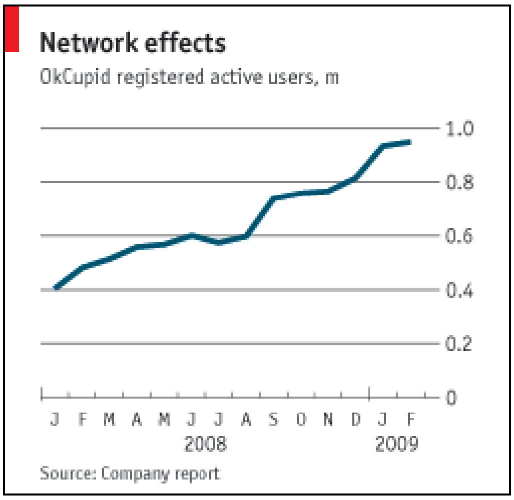
To be sure, it will take time for this "end-game", as Ms Rice-Jones puts it, to play out. And some operators, she says, will always want to keep their own networks. But the recent sharing and outsourcing agreements are a sign of greater co-operation. "In recent years we have seen a lot of chest-beating," says Vittorio Colao, Vodafone's chief executive. "Now all of us are thinking much more about how to use our assets efficiently together."

The internet

Connecting up

Mar 26th 2009 | SAN FRANCISCO
From The Economist print edition

Online-dating websites prosper in the recession



NOT many industries are doing well in the recession. But along with discount retailers and pawnbrokers, online-dating sites such as eHarmony.com and OkCupid.com have seen business look up. There are several theories to explain why. It may be that people have more time to devote to their private lives as the economy slows; that uncertain times increase the desire for companionship; or that living alone is expensive, whereas couples can split many of their costs.

“People who have been single for years are suddenly focused on finding someone,” says Greg Waldorf, the boss of eHarmony, a wholesome marriage-oriented site with more than 20m paying subscribers. He favours the companionship-in-hard-times theory: “Going through difficult times with someone special is better than doing it alone.” In a recent survey carried out for his company, 25% of women said stress about the state of the economy made them more inclined to seek a long-term relationship. The company also noticed that the number of visits to its website was higher than average on days when the Dow Jones Industrial Average fell by more than 100 points.

At OkCupid, which is aimed at a more casual, youthful crowd, there has been a jump in membership since the financial crisis set in (see chart), and an even bigger jump in how often members use the site. Back in September, users were sending 6,000 on-site instant messages a day, says Sam Yagan, OkCupid’s boss. Now that number is over 18,000. OkCupid has the advantage of being free, which has proved popular with people looking for partners for what Mr Yagan euphemistically calls “cheap entertainment”. After all, if you have a girlfriend or a boyfriend, he says, “you can just play Scrabble instead of going out for the evening.”

But perhaps the boom is the result of neither a nesting instinct, nor a desire to save money. AshleyMadison.com, a very different type of dating site, is also doing well. Instead of arranging marriages, the subscription-based site arranges affairs—and never before have so many people been looking for a bit on the side. AshleyMadison’s boss, Noel Biderman, thinks his site, and others, are prospering for another reason: money problems. “The majority of relationship discord stems from economic troubles,” he says. Instead of fighting, married people are taking stock of their lives. “They want to do something that makes them feel better about themselves,” Mr Biderman says, “and $49 is a tiny expenditure for a life-altering affair.”

Co-operatives

All in this together

Mar 26th 2009 | MONDRAGóN
From The Economist print edition

How is the co-operative model coping with the recession?

Illustration by Claudio Munoz

THESE are difficult times for the Fagor appliance factory in Mondragón, in northern Spain. Sales have seized up, as at many other white-goods companies. Workers had four weeks' pay docked at Christmas. Some have been laid off. Now salaries are about to be cut by 8%. Time for Spain's mighty unions to call a strike? Not at Fagor—for here the decisions are taken by the workers themselves.

Fagor is a workers' co-operative, one of dozens that dot the valleys of Spain's hilly northern Basque country. Most belong to the world's biggest group of co-operatives, the Mondragón Corporation. It is Spain's seventh-largest industrial group, with interests ranging from supermarkets and finance to white goods and car parts. It accounts for 4% of GDP in the Basque country, a region of 2m people. All this has made Mondragón a model for co-operatives from California to Queensland. How will co-ops, with their ideals of equity and democracy, cope in the recession?

Workers' co-ops are often seen as hotbeds of radical, anti-capitalist thought. Images of hippies, earnest vegetarians or executives in blue overalls could not, however, be further from reality. "We are private companies that work in the same market as everybody else," says Mikel Zabala, Mondragón's human-resources chief. "We are exposed to the same conditions as our competitors."

Problems may be shared with competitors, but solutions are not. A workers' co-op has its hands tied. It cannot make members redundant or, in Mondragón's case, sell companies or divisions. Losses in one unit are covered by the others. "It can be painful at times, when you are earning, to give to the rest," Mr Zabala admits. Lossmaking co-ops can be closed, but members must be re-employed within a 50km (30-mile) radius. That may sound like a nightmare for managers battling recession. But co-ops also have their advantages. Lay-offs, short hours and wage cuts can be achieved without strikes, and agreements are reached faster than in companies that must negotiate with unions and government bodies under Spanish labour law.

The 13,000 members of Eroski, another co-operative in the Mondragón group and Spain's second-largest retailer, have not just frozen their salaries this year. They have also given up their annual dividend on their individual stakes in the company. A constant flow of information to worker-owners, says Mr Zabala, makes them ready to take painful decisions.

It sounds conflict-free, but that is misleading. One of Mondragón's many paradoxes is that worker-owners are also the bosses of other workers. People have been hired in far-flung places, from America to China, as the group has expanded. It now has more subsidiary companies than co-operatives. Mondragón has two employees for every co-op member. The result is a two-tier system. And when recession bites, non-

member employees suffer most. They are already losing jobs as temporary contracts are not renewed. Like capitalist bosses, the Mondragón co-operativists must, indeed, occasionally handle strikes and trade-union trouble.

Some worry that Mondragón-style success kills the idealism on which most co-ops are based. Those within the Mondragón group are aware of the danger. Eroski wants to offer co-op membership to its 38,500 salaried employees.

The most successful co-ops, however, are those least shackled by ideology. Mondragón used to cap managers' pay at three times that of the lowest-paid co-operativist, for example. But it realised it was losing its best managers, and that some non-member managers were earning more than member managers. The cap was raised to eight times. But this is still 30% below market rates, and some managers are still tempted away. “Frankly, it would be a bad sign if nobody was,” says Adrián Celaya, Mondragón's general secretary.

Lately Mondragón has had trouble keeping successful co-operatives locked in. Irizar, a maker of luxury coaches, split off last year, reportedly because it no longer wanted to support lossmaking co-ops elsewhere in the group.

Henry Hansmann, a professor at Yale Law School, says co-ops often fall apart when worker-owners become too diverse. He points to United Airlines—not a co-operative, but once mainly owned by workers from competing trade unions—as an example of how clashing interests can kill worker ownership. By bringing in tens of thousands of new members at Eroski, many far from the Basque country, Mondragón risks falling into that trap. The group's bosses believe, however, that the way forward is to promote the idea that co-operativism brings advantages. The global downturn may strengthen the group internally. As unemployment sweeps the globe, after all, there is no greater social glue than the fight to keep jobs.

Face value

Reading between the lines

Mar 26th 2009
From The Economist print edition

As glossy magazines struggle, Ann Moore of Time Inc wants technology to be the solution, not the problem

Bloomberg

THERE are few things that unnerve Ann Moore, the chief executive of Time Inc, America's largest magazine company, as much as young Americans' "shock" when they hear that her firm will have to start charging them. "Real reporting takes time and money and effort," she says. "Somebody does have to pay for the Baghdad bureau." A recession is a difficult time to convince readers that they need to start paying for information, however, particularly because Time Inc, a division of Time Warner, a media giant, has long made its articles available free online. But a new model is needed, and Ms Moore is trying all sorts of things in her effort to find one. On March 18th her company launched *Mine*, for example, a new concept that allows readers to go online and select articles from eight titles, for delivery in print or online as a free, personalised magazine. If this proves popular, the company may start charging for it. This nifty scheme highlights Time Inc's eagerness to attract readers to its magazines—but its ambivalence about adding a price tag.

As the boss of a company which oversees 120 magazine titles including *Time*, *People*, *Sports Illustrated* and *Fortune*, Ms Moore faces the difficult task of keeping magazines relevant as household budgets shrink, the appeal of free content online grows, and advertisers reduce their spending. At some of her magazines, such as *Time*, advertising revenues are down by around 30% compared with this time last year, according to *Media Industry Newsletter*. Ms Moore has had to tear up her company's five-year plan and draft a new two-year one instead, focusing on two things: internal reorganisation and innovation.

After laying off around 600 people, Ms Moore has restructured the firm into three units—news, entertainment and lifestyle—grouping together magazines with similar material, advertisers and audiences. The aim is to maintain editorial quality while increasing efficiency, because titles can share writers and articles and pool resources for functions, such as subscription services. Ms Moore has also turned her attention to training, launching "Time Inc University", a series of seminars led by Time executives on topics such as branding and teamwork, in February. Ms Moore will teach one of these seminars herself.

At the same time, Ms Moore is building her magazines' brands and taking them in new directions. Under her, some titles have moved beyond the printed word and into popular culture. *People* co-hosts the Screen Actors Guild Awards Gala, for example, and *Essence* sponsors an annual concert of African-American music. Late last year the company announced an elaborate scheme called "Maghound"—an online subscription service that lets readers pick several magazines to receive each month in the post,

and gives them the chance to switch titles whenever they like. Ms Moore sees promise in using the internet to make readers loyal to print magazines. “The industry needs to use technology to our advantage,” she says.

Ms Moore has seen the magazine industry evolve, and weather technological shifts, for over three decades. She graduated from Harvard Business School in 1978 with 13 job offers, including one from Time Inc. She accepted it, even though it paid the least, because she had grown up reading *Time* and dreamt of working at *Sports Illustrated*. She started as a financial analyst and rose to become associate publisher of *Sports Illustrated*, but it soon became clear to her that the magazine, a very male title at a company dominated by men, would not make her publisher in a hurry. So she moved to *People* in 1991, and helped make it one of the most profitable magazines in the world.

It was at *People* that Ms Moore was spotted by Richard Parsons, who later became chief executive of Time Warner and chose Ms Moore as chief executive of Time Inc in 2002. According to Mr Parsons, who is now chairman of Citigroup, Ms Moore was “bright, charming, energetic, fun and gutsy” and had the skills to “transform Time Inc from a magazine company to a publishing company” that made its output available online as well as in print. But Mr Parsons, who has watched her career closely, admits that she is now operating in troubled waters, as she tries to cope with a recession in addition to the rise of the internet.

Ever the optimist

Ms Moore is a self-described “magazine optimist” who thinks that holding a glossy magazine beats looking at a screen. Magazines may indeed be better placed than newspapers to cope with the recession and readers’ shift towards the web. But given the woes of America’s newspapers, many of which have gone bust or shifted to scaled-down, web-only operations, that is not saying much. And despite her love of print, Ms Moore is not afraid of technology. In February *Time* ran a cover story entitled “How to Save Your Newspaper” which crystallised a growing belief within the industry that providing articles to readers free online is not sustainable, and that a switch to paid access will be necessary. Ms Moore thinks her firm can lead the way in this shift from freebies to fees. This month Time Inc said it was considering the introduction of a hybrid (or “freemium”) scheme, making some *People* and *Time* articles available free, but charging for premium content. But this approach has been tried before, notably by the *New York Times*, which later abandoned it.

Another possibility is that readers may be prepared to subscribe to content on portable devices such as Amazon’s Kindle e-reader or advanced “smart” phones. Ms Moore says it might make sense for her company to subsidise such devices if readers agree to sign up for enough material—an approach that would make particular sense for Time Inc, with its wide range of titles. Ms Moore is already talking to makers of e-readers about working together. The music industry, she notes, missed out because it was afraid to embrace technology. She is determined not to let the same thing happen in magazine publishing.

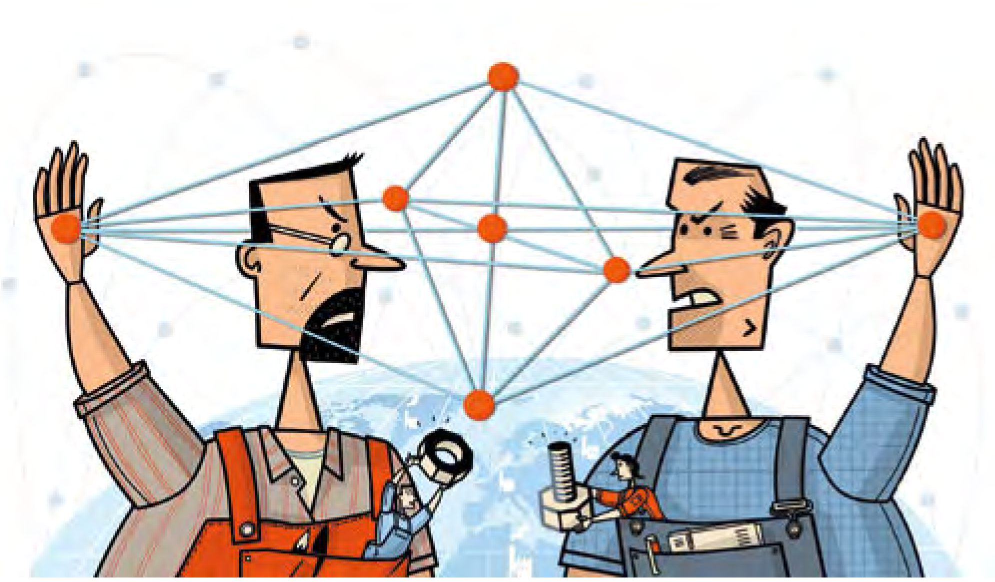
Globalisation and trade

The nuts and bolts come apart

Mar 26th 2009
From The Economist print edition

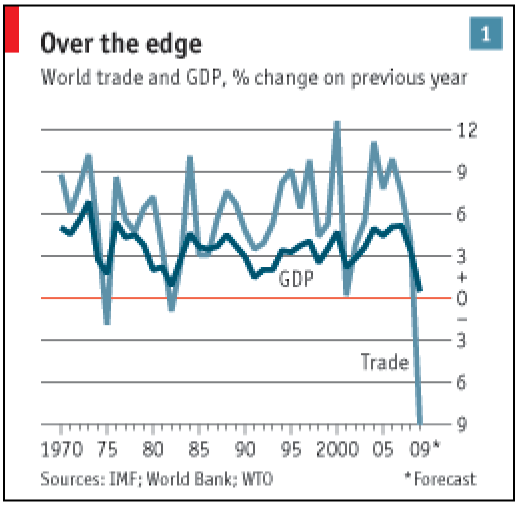
As global demand contracts, trade is slumping and protectionism rising

Illustration by Ian Woodcock



COMPARISONS to the Depression feature in almost every discussion of the global economic crisis. In world trade, such parallels are especially chilling. Trade declined alarmingly in the early 1930s as global demand imploded, prices collapsed and governments embarked on a destructive, protectionist spiral of higher tariffs and retaliation.

Trade is contracting again, at a rate unmatched in the post-war period. This week the World Trade Organisation (WTO) predicted that the volume of global merchandise trade would shrink by 9% this year. This will be the first fall in trade flows since 1982. Between 1990 and 2006 trade volumes grew by more than 6% a year, easily outstripping the growth rate of world output, which was about 3% (see chart 1). Now the global economic machine has gone into reverse: output is declining and trade is tumbling at a faster pace. The turmoil has shaken commerce in goods of all sorts, bought and sold by rich and poor countries alike.



It is too soon to talk of a new protectionist spiral. Nevertheless, errors of policy risk making a bad thing worse—despite politicians' promises to keep markets open. When they met in November, the leaders of the G20 rich and emerging economies declared that they would eschew protectionism and will doubtless do so again when they meet on April 2nd. But this pledge has not been honoured. According to the World Bank, 17 members of the group have taken a total of 47 trade-restricting steps since November.

Modern protectionism is more subtle and varied than the 1930s version. In the Depression tariffs were the weapon of choice. America's Smoot-Hawley act, passed in 1930, increased nearly 900 American import duties—which were already high by today's standards—and provoked widespread retaliation from America's trading partners. A few tariffs have been raised this time, but tighter licensing requirements, import bans and anti-dumping (imposing extra duties on goods supposedly dumped at below cost by exporters) have also been used. Rich countries have included discriminatory procurement provisions in

their fiscal-stimulus bills and offered subsidies to ailing national industries. These days, protectionism comes in 57 varieties.

There are good reasons for thinking that the world has less to fear from protectionism than in the past. International agreements to limit tariffs, built over the post-war decades, are a safeguard against all-out tariff wars. The growth of global supply chains, which have bound national economies together tightly, have made it more difficult for governments to increase tariffs without harming producers in their own countries.

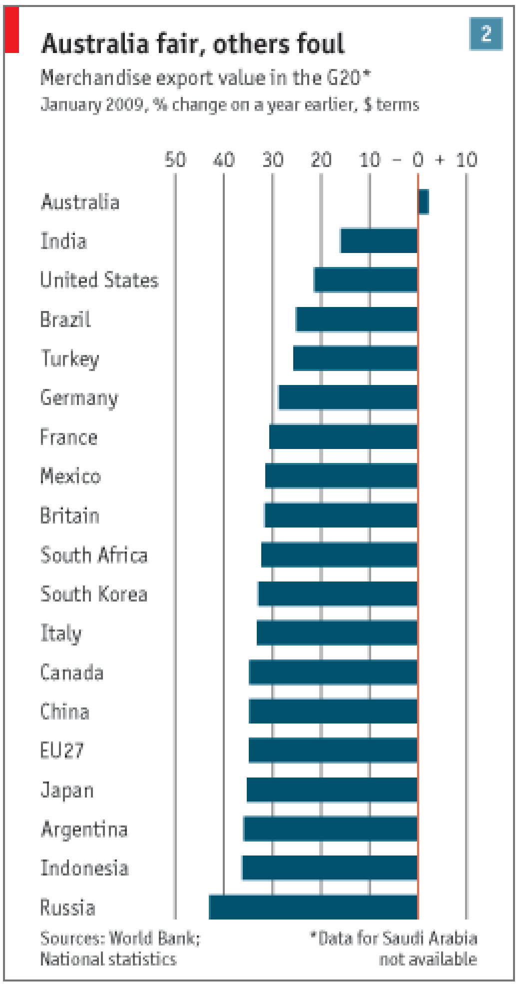
But these defences may not be strong enough. Multilateral agreements provide little insurance against domestic subsidies, fiercer use of anti-dumping or the other forms of creeping protection. Most countries are able to raise tariffs, because their applied rates are below the maximum allowed by their WTO commitments. They may choose to do so despite the possible disruption to global supply chains. And because global sourcing amplifies the effect of tariff rises, even action that is permissible under WTO rules could cause a lot of damage. The subtler variants of protection may be similarly disruptive.

The gears of globalisation

The immediate cause of shrinking trade is plain: global recession means a collapse in demand. The credit crunch adds an additional squeeze, thanks to an estimated shortfall of $100 billion in trade finance, which lubricates 90% of world trade.

Just as striking as the speed of the downturn in trade is its indiscriminate nature. The World Bank has January trade data for 45 countries (available figures for G20 countries are shown in chart 2). These are values, expressed in American dollars, and so have been depressed not only by lower volumes but also by falling prices and a stronger dollar. The exports of 37 of these 45 countries were more than a quarter lower than in January 2008. Countries as diverse as Ecuador, France, Indonesia, the Philippines and South Africa saw exports drop by 30% or more. Commodity exporters, such as Argentina, have suffered with sellers of sophisticated manufactures, such as Germany and Japan.

Kei-Mu Yi, an economist at the Federal Reserve Bank of Philadelphia, argues that trade has fallen so fast and so uniformly around the world largely because of the rise of “vertical specialisation”, or global supply chains. This contributed to trade’s rapid expansion in recent decades. Now it is adding to the rate of shrinkage. When David Ricardo argued in the early 19th century that comparative advantage was the basis of trade, he conceived of countries specialising in products, like wine or cloth. But Mr Yi points out that countries now specialise not so much in final products as in steps in the process of production.



Trade grows much faster in a world with global sourcing than in a world of trade in finished goods because components and part-finished items have to cross borders several times. The trade figures are also boosted by the practice of measuring the gross value of imports and exports rather than their net value. For example, a tractor made in America would once have been made from American steel and parts; it would have touched the trade data only if it was exported. Now, it may contain steel from India, and be stamped and pressed in Mexico, before being sold abroad. As a result, changes in demand in one country now affect not just the domestic economy but also the trade flows and economies of several countries.

This mechanism can be seen at work in recent data—for instance, says Mr Yi, in American automotive-trade figures for the last three months of 2008. Imports from everywhere fell by about 20%. On the export side, sales to America’s partners in the North American Free Trade Agreement (NAFTA) fell by 20% whereas those to non-NAFTA countries rose slightly. This, he argues, is because three-quarters of exports to non-NAFTA countries consist of finished vehicles, whereas 60% of exports to NAFTA partners

consist of parts and components, most of which return to the United States embodied in imported vehicles. So American exports to other NAFTA countries are to a large extent determined by America's own demand for cars.

By making trade flows more sensitive to falls in output, vertical specialisation may provide some insurance against widespread protectionism. Manufacturers that rely on imported inputs may resist higher tariffs because they push up the prices of those inputs, making domestic industry less competitive.

Governments using tariffs as trade weapons now have to calculate the consequences far more carefully. This is borne out, for example, by Mexico's response this month to the suspension by America of a NAFTA programme that allowed some Mexican truckers to carry goods north of the border. Mexico raised some tariffs, but by less than NAFTA rules allowed, and chose the goods carefully in order to limit the damage to its own industries.

Nevertheless, there is plenty of evidence that developing countries, at least, continue to use tariffs extensively. In the World Bank's study, tariff increases accounted for half of the protective measures by these countries. Ecuador raised duties on 600 goods. Russia increased them on used cars. India put them up on some kinds of steel. Developing countries have more scope for raising tariffs without breaking WTO rules than richer ones do, because the gap between their applied rates and the ceilings they agreed to is greater than for developed countries.

When governments do impose tariffs, vertical supply chains amplify their effects. Because tariffs are typically levied on the gross value crossing the border (with some exceptions, such as exports from Mexican *maquiladoras*), trade responds more to changes in tariffs—down or up—with global supply chains than without.

But there is another, more subtle reason to worry about even small rises in tariffs. Theoretical models that incorporate vertical specialisation find that it takes off only when tariffs fall below a threshold level. Once this happens, however, trade explodes, so that a slight lowering of trade barriers can cause a huge increase in trade. By the same token, if tariffs rose above a certain point—which might be below the maximum agreed on at the WTO—global supply chains would disintegrate. Trade would drop even more steeply than it has in recent months.

That said, supply chains need not snap so easily. Even if tariffs go up, other costs that determine the viability of supply chains may go down: the price of oil (and hence the cost of transport) has fallen a long way in the past year. Firms have invested a lot in their supply chains and will be loth to abandon them. And if global supply chains do survive, vertical specialisation could help trade recover speedily when demand returns.

Although increased tariffs are a cause for concern, they are far from the only form of protection being used in this crisis. Two-thirds of the trade-restricting measures documented by the World Bank are non-tariff barriers of various kinds. As with tariffs, developing countries are the principal wielders of these weapons.

Indonesia has specified that certain categories of goods, such as clothes, shoes and toys, may be imported through only five ports. Argentina has imposed discretionary licensing requirements on car parts, textiles, televisions, toys, shoes and leather goods; licences for all these used to be granted automatically. Some countries have imposed outright import bans, often justified by a tightening of safety rules or by environmental concerns. For example, China has stopped imports of a wide range of European food and drink, including Irish pork, Italian brandy and Spanish dairy products. The Indian government has banned Chinese toys.

In addition, anti-dumping is on the increase. The number of anti-dumping cases initiated at the WTO had been declining, but it started to pick up in the second half of 2007. The data for 2008 are not yet complete but Chad Bown, an economist at Brandeis University, estimates that the number was 31% higher than in the previous year. The number of cases ending with extra duties went up by 20%. India was the biggest initiator of anti-dumping action, and America and the European Union imposed duties most frequently.

Rich countries' weapon of choice so far is neither tariffs nor non-tariff barriers to imports. They have been keen users instead of subsidies to troubled domestic industries, particularly carmakers. Some economists, such as Gene Grossman, of Princeton University, cite this as evidence that global sourcing

has changed the political economy of protection. The American automotive industry no longer lobbies for direct protection, as it used to, because it imports much of its value-added and competes with foreign firms that assemble their cars in America. Carmakers now prefer explicit subsidies, and the world is replete with examples. Besides America, Argentina, Australia, Brazil, Britain, Canada, China, France, Germany, Italy and Sweden have all also provided direct or indirect subsidies to carmakers. The World Bank reckons that proposed subsidies for the car industry amount to $48 billion. Nearly 90% of this is in rich countries, where it can easily be slipped into budgetary packages to stimulate demand.

The worry about such subsidies is that they could cause production to switch from more efficient plants (eg, in central and eastern Europe) to less efficient ones in rich countries with deep pockets (eg, in western Europe). Whether the location of output is shifting is not yet clear, but politicians plainly hope it will. On March 19th Luc Chatel, the French industry minister, boasted that Renault's plans to create 400 jobs at a factory near Paris by "repatriating" some production from Slovenia was the result of government aid. Renault has denied this, saying that it was at full capacity in Slovenia.

There are some international rules to prevent distorting subsidies. The EU has regulations to limit state aid, and is looking into its members' assistance to carmakers. Gary Hufbauer, of the Peterson Institute for International Economics in Washington, DC, argues that American subsidies transgress WTO norms.

Helpful ambiguity

However, WTO action against subsidies is not straightforward. To complain successfully, a country has to show that a subsidy meets several criteria. Then there is a pots-and-kettles problem: having subsidies of your own does not stop you from challenging someone else's, but if you pick a fight they may have a go at yours. This uncertainty and ambiguity only adds to subsidies' attraction. Governments can aid their carmakers and at the same time criticise others for their protectionist ways.

Protectionist urges are also being bolstered by countries' seeming inability to co-ordinate their fiscal stimulus programmes. Some countries have been reluctant to work the budgetary pump for fear that their extra demand will leak abroad to the benefit of foreigners. To stop the seepage, some governments have inserted discriminatory conditions into their fiscal programmes, the prime example being the "Buy American" procurement rules. These were weakened after protests and threats of retaliation from abroad, but not before the prospects for global co-operation had been dented. Greater co-ordination of fiscal expansion would ease governments' worries about leakage, because everyone else would be leaking too: all would gain from each other's spending.

What should world leaders do to stop protection fraying the threads that tie the world economy together? The pious declaration at the previous G20 meeting has had little effect. There is a risk that another such promise on April 2nd will prove to be just as empty. The difficulty lies in devising something comprehensive and detailed enough to address the variety of protectionist measures that are being deployed in the crisis, and doing it quickly enough to maintain open trade.

Illustration by Ian Woodcock

Many argue that the most important thing for world leaders to do is to pledge a quick completion of the Doha round of trade talks, which stalled for the umpteenth time last summer. By reducing tariff ceilings, this would place tighter limits on countries' ability to increase tariffs. It would also ban export subsidies in agriculture, which are being used with greater vigour, especially as prices of farm goods fall. The EU, for example, has announced new export subsidies for butter, cheese and milk powder. Most important, completing Doha would be the clearest and most tangible evidence possible of a commitment to consolidating and building on the gains from more open trade secured in successive rounds since the second world war.

Some economists disagree. Aaditya Mattoo, of the World Bank, and Arvind Subramanian, of the Peterson Institute, argue that the Doha round is too ambitious given the state of the world economy, because it seeks to open markets for rich countries' manufactured goods just when the politics are against it. At the same time, they point out that Doha would not restrict the use of some non-tariff measures causing most concern, such as the Buy American provisions or subsidies for failing industries. Messrs Mattoo and Subramanian suggest a new "crisis round" of world trade talks. In

the first instance, WTO members could commit themselves to a standstill on all forms of protectionism.

Several other economists have also proposed a standstill. However, Messrs Mattoo and Subramanian suggest that in order to give governments a political reason to agree to this, they should also be allowed to postpone further liberalisation for the duration of the crisis. They would then embark on a new round instead of Doha, which would address the forms of protection that now look most pressing.

But the appetite for starting yet another series of talks is likely to be limited. Even if the crisis round's agenda were more realistic than Doha's (which isn't obvious), there would be no guarantee that it could be concluded quickly enough to stop the bleeding in global trade.

Whatever they think about Doha or about the idea of a crisis round, most economists will agree that a simple promise to resist protectionism will not suffice. Some thing more specific is needed. A good start would be for governments, beginning with the leaders of the G20, to draw up a comprehensive list of protectionist measures that goes beyond tariffs and export subsidies. They could then agree to go no further with these than they have already.

Next, an agreement on co-ordinating fiscal policy would go a long way towards making such a standstill commitment credible, because it would alleviate worries about leakages abroad. Finally, empowering the WTO to name those who break the standstill would help to underpin it. The threat of embarrassment may make some countries think twice.

During the Depression, the volume of world trade shrank by a quarter. Nothing like that has been seen or forecast so far. Yet one lesson from the worldwide economic distress of three-quarters of a century ago is that once trade barriers come up, they take years of negotiation to dismantle. Preventing protectionism from getting worse is preferable to having to repair the damage afterwards. And even if a full-blown trade war can be ruled out, death by a thousand cuts cannot. The costs of myriad piecemeal measures could still add up to damaging protectionism. And when demand does eventually revive, if the world economy is supported by an open system of trade, it will recover all the faster.

America's toxic-asset plan

Dr Geithner's bank rehab

Mar 26th 2009 | NEW YORK
From The Economist print edition

There should be no shortage of buyers for American banks' rotten assets, thanks to generous subsidies. Sellers will be harder to entice

AP

ONE way to treat a recovering drug addict is to force him to go through cold turkey. Another is to prescribe him a substitute for the original poison, such as methadone. America's long-awaited effort to relieve banks of troubled assets leans towards the second approach, aiming to entice private buyers by offering the same supercharged leverage that coursed through the veins of the financial system during the credit boom. Paradoxically, at a time when the private sector is furiously cutting back on debt, the government sees the copious provision of cheap financing as the best way to loosen up the market for illiquid debt.

The public-private partnership announced on March 23rd marks a revival of sorts for the asset-buying component of the Troubled Asset Relief Program (TARP), a $700 billion rescue fund created last October which was quickly refashioned into a bank-recapitalisation vehicle. This time, however, the buyers will be money managers and insurers, not the government, though they will have plenty of help, through co-investment by the Treasury, cheap loans from the Federal Reserve and guarantees from the Federal Deposit Insurance Corporation (FDIC). For every private dollar invested, the taxpayer will provide a matching dollar of equity and up to $12 of other financing. Investors can walk away from their debts if a deal loses money.

In theory, private buyers, bidding against each other, should be better than the government at determining the real value of assets. But some economists have denounced the plan as a disguised subsidy posing as a market solution. The taxpayer is on the hook for most of the losses but gets only half of the profits.

Mr Geithner sees this as a price worth paying to unclog banks' balance-sheets. And this is a cost that America has swallowed before to get out of trouble. Like the new plan, the Resolution Trust Corporation, an entity set up to resolve the savings-and-loan crisis, used auctions and government co-investment to attract buyers. Some of them made fortunes, but the mechanism helped the market to clear and was deemed a success.

This time, too, the sweet terms have piqued the interest of big fund managers, such as BlackRock and PIMCO. The biggest obstacle to their participation is no longer financial risk but the political sort, thanks to

the bonus frenzy over American International Group (AIG). The Obama administration may have toned down its Wall Street-bashing, and Congress is rethinking its plan to tax bonuses at up to 90%. But many still worry that they could become a target if they reap big windfalls. Some fear that low-cost leverage might tempt buyers to overpay. Barclays Capital thinks it could lift market prices by 10-20%. The Treasury argues that these prices are artificially depressed because of illiquidity, though more pessimistic types suspect that they merely reflect future losses. Such concerns explain why, although stockmarkets leapt when the plan was announced, credit markets—generally a more reliable barometer—reacted less enthusiastically. Indices linked to risky mortgages remained near record lows.

If the plan falls flat, however, it is more likely to be because of a lack of sellers. Many banks are still holding assets, particularly whole loans, at values far above their market price because, under accrual accounting, losses can be booked over several years (see article). Even with government help, bids may not be high enough to tempt banks to deal, since any price below the carrying value would force them to take a write-down and deplete precious capital.

An example of this problem is adjustable-rate mortgages. Wells Fargo has written its portfolio (largely inherited from the acquisition of Wachovia) down to around 70 cents on the dollar. But the market price is half that. With leverage, a buyer might be prepared to pay close to its estimated “economic value” if held to maturity. But this is only perhaps 60 cents. Why sell now, and take an immediate ten-cent hit, when you can spread out the pain by holding on to the loans?

This problem is less acute in mortgage-backed securities, which holders of all stripes have been more willing to write down. Indeed, those banks, such as Goldman Sachs and Morgan Stanley, that have been most assiduous in marking to market expect to be able to sell some of their holdings for a higher price, boosting their bottom line. They may use these gains to repay TARP investments: Goldman is reportedly keen to pay back its $10 billion as early as next month.

The key to encouraging selling could be the “stress tests” being conducted on the 19 largest banks, which are due to conclude in late April. Regulators might use these to force over-optimistic banks to write loans down to levels at which they would find takers in “shotgun sales”, in the process topping them up with fresh capital in return for a bigger government stake. Sheila Bair, the FDIC’s chairman, indicated this week that banks would be given a nudge.

Still, some fear that the plan may not be big enough. Firepower of up to $1 trillion may sound a lot, but much more than that amount is in danger of souring in America as consumer credit deteriorates and more companies default. With little chance of wringing more bail-out money from Congress, barring a stunning change of mood, the new plan could hit a funding wall.

To date, just under half of the TARP’s $700 billion has been disbursed. Add in the toxic-asset plan, and the total climbs to as much as $608 billion. With large dollops needed to plug banks’ capital holes once the stress tests are completed, and other industries clamouring for help, the remaining $92 billion may fall short of what is required. One hope of topping up the pot may lie in an expansion of the FDIC’s emergency credit line, from $30 billion to as much as $500 billion, though that would require congressional approval.

So Mr Geithner faces hard choices. He will desperately want the new plan to succeed, not least because its failure could unseat him. He is already reeling from criticism that he was slow to respond to the AIG handouts. Now, at least, he has provided a detailed scheme, even if there is still devil in the details. America can claim to be tackling its troubled assets.

Whether it has picked the right approach is another matter. The alternative chosen by Britain, to leave the assets in place and insure them for a fee, has many proponents—indeed, America did just that with the worst assets of Citigroup and Bank of America, but rejected it as a system-wide solution. Others continue to push the nationalise-and-recapitalise option, though this remains politically unpalatable in America. World leaders must hope that, in banking as in narcotics, there are numerous paths to rehabilitation.

American banks

It takes two to tango

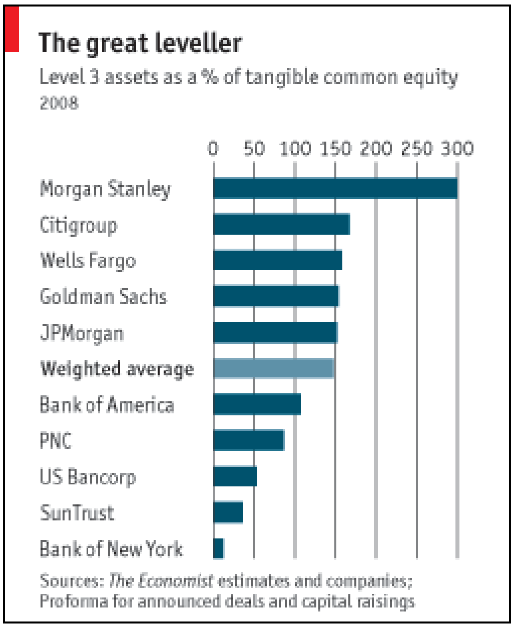
Mar 26th 2009
From The Economist print edition

Are America's banks prepared to sell their toxic assets?

AMERICA'S government is a willing buyer of bad assets, but are its banks willing sellers? If a lender flogs a loan or security for less than the value at which it is booked on its balance-sheet, it suffers a loss, depleting its capital. It follows that if banks' carrying values are still above those that state-sponsored bidders want to pay, they will not sell voluntarily.

Just how optimistic are banks' books? Two-thirds of the Treasury scheme's purchasing power will be directed towards legacy loans. America's ten biggest banks had plenty of these—$3.6 trillion at the end of 2008, or about a third of their assets. However by global convention loans are not marked to market, but carried at cost and impaired gradually. Some categories of risky loans, for example to private-equity firms, have been written down. But the vast majority of loans have not. In aggregate the carrying value of the top-ten banks' loan books was 3% above the market price in December. That gap may not seem much, but it amounts to over $110 billion; if it were crystallised, it would wipe out a quarter of these banks' tangible common equity, their purest form of capital. The loss is also likely to be concentrated on the dodgiest loans, making them hard to sell.

The remainder of the scheme's firepower will be directed at securities, which at $3.7 trillion comprise another third of the top-ten banks' assets. These are marked to market and have been the main source of the savage write-downs that banks have suffered.



Many fear that banks are still being over-optimistic about their nastiest assets. For the top ten banks, 16% of securities were classified as "Level 3", equivalent to 1.5 times their equity (see chart). Level 3 means there are no reliable market prices available, leaving the banks free to use models. The assumptions in these may not be particularly pessimistic: at the end of 2008, $12 billion of Citigroup's Level 3 structured-credit exposures were valued according to a fall in house prices of 33% from the peak—a smaller drop than the one in the government's own "stress test". Those banks with the least capital probably have more generous valuations. And the scheme will buy only securities that originally had an AAA credit rating, which rules out the nastiest stuff.

That still leaves about $3 trillion of securities that are marked to market using more reliable direct or indirect price inputs. But banks may be reluctant to sell their loans and their most toxic securities—exactly what the scheme is meant to target. The obvious remedy is to force banks to write down their assets further as part of the governments' continuing stress tests. But with capital ratios tight and the Treasury's bail-out kitty now almost depleted, that could push several big banks towards insolvency.

The dollar as a reserve currency

Handle with care

Mar 26th 2009
From The Economist print edition

China suggests an end to the dollar era

IN FUTURE, changes to the international financial system are likely to be shaped by Beijing as well as Washington. That is the message of an article by Zhou Xiaochuan, the governor of the People's Bank of China. Mr Zhou calls for a radical reform of the international monetary system in which the dollar would be replaced as the main reserve currency by a global currency. It is a delicate issue, however. When Tim Geithner, America's treasury secretary, discussed the proposal in New York on March 25th, his remarks sent the dollar tumbling before he made clear that, naturally, he thought the greenback should remain the dominant reserve currency.

Mr Zhou's proposal is China's way of making clear that it is worried that the Fed's response to the crisis—printing loads of money—will hurt the dollar and hence the value of China's huge foreign reserves, of which around two-thirds are in dollars.

He suggests that the international financial system, which is based on a single currency (he does not actually cite the dollar), has two main flaws. First, the reserve-currency status of the dollar helped to create global imbalances. Surplus countries have little choice but to place most of their spare funds in the reserve currency since it is used to settle trade and has the most liquid bond market. But this allowed America's borrowing binge and housing bubble to persist for longer than it otherwise would have. Second, the country that issues the reserve currency faces a trade-off between domestic and international stability. Massive money-printing by the Fed to support the economy makes sense from a national perspective, but it may harm the dollar's value.

Mr Zhou suggests that the dollar's reserve status should be transferred to the SDR (Special Drawing Rights), a synthetic currency created by the IMF, whose value is determined as a weighted average of the dollar, euro, yen and pound. The SDR was created in 1969, during the Bretton Woods fixed exchange-rate system, because of concerns that there was insufficient liquidity to support global economic activity. It was originally intended as a reserve currency, but is now mainly used in the accounts for the IMF's transactions with member countries. SDRs are allocated to IMF members on the basis of their contribution to the fund.

Mr Zhou's plan could win support from other emerging economies with large reserves. However, it is unlikely to get off the ground in the near future. It would take years for the SDR to be widely accepted as a means of exchange and a store of value. The total amount of SDRs outstanding is equivalent to only $32 billion, or less than 2% of China's foreign-exchange reserves, compared with $11 trillion of American Treasury bonds.

There are also big political hurdles. America would resist, because losing its reserve-currency status would raise the cost of financing its budget and current-account deficits. Even Beijing might want to rethink the idea. Mr Zhou praised John Maynard Keynes's proposal in the 1940s for an international currency, the “Bancor”, based on commodities. But as Mark Williams of Capital Economics says, central to Keynes's idea was that a tax be imposed on countries running large current-account surpluses, to encourage them to boost domestic demand.

Economist.com FINANCE & ECONOMICS

Buttonwood

Searching for value

Mar 26th 2009
From The Economist print edition

Where might the bottom for shares prove to be?

Illustration by S. Kambayashi

EVERY time the stockmarket rebounds, as it has recently, commentators wonder whether this at last marks the bottom for share prices. The danger is that bear markets are pitted with "suckers' rallies" that break investors' hearts.

Valuation ought to provide a clue. Given the speed of last autumn's collapse and the terrible performance of equities over the past decade, you might think that shares were dirt cheap. Alas, history suggests they have been a lot cheaper.

Start with the obvious measures. The historic dividend yield on the American stockmarket is around 3%. That may be higher than it has been since the mid-1990s, but it is a long way short of the 8.7% the market was offering back in 1950. Anyway, payouts are likely to be slashed this year.

How about the price/earnings ratio, the measure that compares share prices with profits? The latest p/e for the S&P 500 is around 10.5 (based on reported historic earnings). That is a long way above the low for the ratio of around six, recorded back in 1949. And this is probably a generous measure; reported earnings ignore write-offs, which have recently been huge. On a more conservative calculation, the historic p/e is around 42.

But these measures need not necessarily be a good guide at extremes. Wall Street traded on a high p/e in 1932, because earnings had collapsed so far during the Depression. Profits and share prices rebounded strongly in 1933. Robert Shiller (see article) uses a cyclically adjusted p/e that averages profits over ten years to smooth out fluctuations. On that basis, the American market is now trading on a p/e of 12; that is a long way below the 44 recorded in 1999, but is well above the 1921 low of around 5. Similar calculations prompt Andrew Smithers of the consultancy Smithers & Co to reckon that Wall Street is only around "fair value".

You have to turn to relative valuations to make shares look cheap. This is a controversial subject. Clearly, investors have a choice between holding their portfolios in shares, bonds or cash, and can switch to the cheapest asset. But such approaches assume that low bond yields are good news for equities.

The reasoning is usually based on a discounted-cashflow model; a lower bond yield means a lower discount rate and thus a higher present value for shares. But that approach fails to consider why bond yields have fallen. The answer is normally that expectations for inflation or economic growth have declined. And that means expectations for nominal or real profits growth should be falling in line. In Japan the very low bond yields of the past 15 years have not been good news for equities at all.

A more sophisticated argument revolves around the equity risk-premium, the extra return investors should demand for holding shares. Since 1900 this has been around 4% a year, according to Elroy Dimson, Paul Marsh and Mike Staunton at the London Business School. A rough calculation for the forward-looking risk premium would add the dividend yield of 3% to expected long-term nominal dividend growth (in line with GDP) of 5% and then subtract the ten-year bond yield of 2.7%. The result is a risk premium of 5.3%. That may be higher than the historical average but may simply reflect the expectation that dividends may be cut sharply this year, and will thus rebound from a much lower base.

Chris Watling of Longview Economics points to another measure, the relation between the earnings yield and the real return on cash. Over the past 50 years, the earnings yield has averaged around five percentage points higher than the return on cash. The gap is now around eight points and has only ever

briefly been in double digits.

Part of the aim of central banks in driving down interest rates is to encourage a greater risk appetite among investors. One of the bulls' hopes for the equity market is that American investors simply get tired of earning virtually zero on the estimated $13 trillion they hold in money-market mutual funds.

Again, Japan's example is not encouraging—zero rates have coincided with dismal equity performance for years. But Larry Kantor of Barclays Capital argues that the global authorities have been a lot more active than Japan's were, supplying everything from quantitative easing to huge fiscal packages in the first 18 months of this crisis. Just as the Greenspan put buoyed investors in the 1990s, investors must trust in a Bernanke/Geithner put that keeps shares from falling to the lows seen in the past.

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The European Central Bank

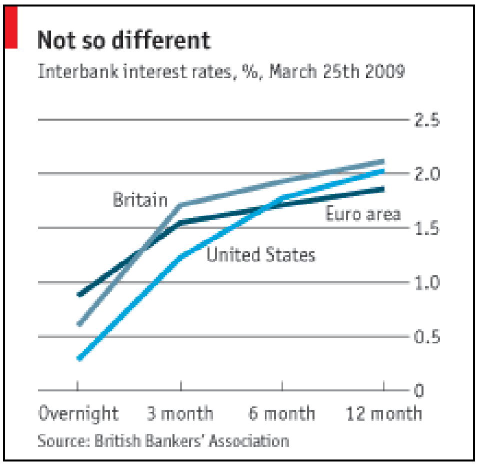
Liquidity carrier

Mar 26th 2009
From The Economist print edition

The ECB may soon embark on a mild form of quantitative easing

ERIC CANTONA, a temperamental footballer, once derided Didier Deschamps, his colleague in the French national team, as a mere "water-carrier". The implication was that Mr Deschamps, a tireless midfielder, could not provide the spark and creativity of players such as Mr Cantona. That contrast between flashy inspiration and stolidity may now apply to the world's big central banks. The Federal Reserve's plan to buy up to $300 billion of government bonds makes efforts by the European Central Bank (ECB) seem plodding by comparison. Many believe that ferrying liquidity to commercial banks is no longer enough: the ECB should follow the Fed and the Bank of England in using central-bank money to buy assets, including public debt.

That is something the ECB is not rushing into. Its policy-setting council meets on April 2nd, and seems likely to cut the bank's benchmark "refi" rate to 1% from 1.5%. In the past, that rate would set the level of overnight interest rates in money markets and serve to measure how tight or loose the monetary-policy stance was. But the ECB's policy of funding banks for up to six months at that rate means there is lots of cash sloshing around money markets. That has driven the charge for overnight loans below the official refi rate, closer to the cost of such borrowing in America or Britain. Indeed it is now cheaper for banks to borrow for six or 12 months in euros than in either dollars or sterling (see chart).



Jean-Claude Trichet, the ECB's chief, has defended the bank's water-carrying approach. Firms and households in Europe, unlike in America, rely more on banks than capital markets for their debt finance. So it makes more sense for the ECB to lend freely to banks, in order to help cap lending rates, than to lower the cost of capital in securities markets, by buying assets directly. By one measure of policy activism, the ECB can still claim bragging rights. Its balance-sheet is bigger than the Fed's as a share of GDP, mostly reflecting the relative sizes of their banking industries. That lead won't last long. The Fed's assets are likely soon to exceed the ECB's, as the reach of its operations extends far beyond liquidity support for banks.

Added to the peer pressure to do more is the risk of a much stronger euro. The ECB is also running out of room to ease policy by conventional means. The deposit rate it pays to banks on their excess cash is one percentage point below its policy rate, and provides a floor for overnight interest rates. Once the refi rate is cut to 1%, the deposit rate will go to zero unless the ECB narrows the gap. If recovery is not in sight and deflation threatens, the clamour for more monetary stimulus will be hard to resist.

Mr Trichet has said that fresh "non-standard" measures are being studied. The ECB also has the option of extending some existing schemes. It could, for instance, provide unlimited funding to banks for up to 12 months or even longer. It could reduce the "haircuts" it subtracts from the market value of collateral, allowing banks to borrow more cheaply. Or it could choose to accept riskier collateral.

A plan to buy assets directly is unlikely to emerge on April 2nd. But with the economy showing few signs of recovery, the ECB may start to buy commercial paper and longer-term bank bonds fairly soon. The bank, jealous of its independence from government, will be loth to go further and buy public debt, as the Fed plans to. Yet the ECB's liquidity support may help lower euro-area bond yields: commercial-bank purchases of government debt have risen sharply recently. The ECB will hope that a less flashy form of quantitative easing will suffice, at least for now.

Japanese stocks

Wide girls

Mar 26th 2009 | TOKYO
From The Economist print edition

Mrs Watanabe is tiptoeing back into Japan's stockmarket

Illustration by S. Kambayashi

"NOT trusted" is how Japan's Prime Minister Taro Aso described stockbrokers this month, before calling them *kabuya*, or "wide boys". And with the Tokyo stockmarket scraping 26-year-lows in mid-March before soaring 20% in the past fortnight, the reputation of equities as an investment is shoddy at best. Yet some Japanese investors are throwing caution to the wind and beginning to buy.

New trading accounts are being opened at an unusually quick pace. Monex, the biggest online broker, doubled the number of new accounts in the last three months of 2008 to 210,000, as the market hit a two-decade trough. Nomura, the biggest broker, had a sudden 20% surge in new accounts. For the first time in 18 years, Japanese retail investors ended the year having bought more shares than they sold. They have been net buyers so far this year as well.

The trend is not nearly powerful enough to call a market bottom. Although the number of retail accounts has increased, their trading activity has not, suggesting many are still being cautious. Those who have taken the plunge have suffered; even after the recent rally, the Nikkei 225 Stock Average has fallen by 7% this year. The difference between sellers and buyers is small—5-10% since November—and trading activity among individuals was low to start with, so only a small shift in trading volumes can tip the trend from net seller to net buyer.

A lot rests on Mrs Watanabe, the fabled retail punter who plays the markets while running her household's finances. Since the stockmarket bubble burst in 1990, its value remains at a quarter of its peak. But Japanese shares yield 2.7% whereas short rates are virtually zero, and the potential is huge when Mrs Watanabe eventually does wade in. She and her kind sit on financial assets of around $15 trillion, half in cash and bank deposits. As the population ages and declines, earning income from those savings is essential. Christopher Wood of CLSA, a brokerage, has long predicted that Japan's stockmarket will turn around only when retail investors return.

Why might they be tempted? Perhaps the market has been oversold by foreigners, who have sold shares to pay for losses elsewhere. Shares also trade at about 70-80% of their book value (implying that firms are worth more as a collection of assets to be sold than as going concerns).

Moreover, share prices may gain if the government becomes a buyer (as it did during recessions in the 1950s and 1960s). It wants to. Banks and insurance firms own 15% of the market by value; giving the market a lift would be a big fillip for them.

Yet when a board member of a local broker in December ventured into the stockmarket for the first time, it elicited only cynicism from seasoned hands. "Sure, push up the share price so institutional investors can sell," sniped one international banker. Just another *kabuya*.

The G20 and tax

Haven hypocrisy

Mar 26th 2009 | BERLIN
From The Economist print edition

Big economies are leaning on offshore tax havens. But greater abuse may be taking place at home

MONEY launderers are moved by greed, unlike Jason Sharman, a political scientist at Australia's Griffith University. Yet with a budget of $10,000 and little more than Google (and the ads at the back of this paper), he showed how easy it was to circumvent prohibitions on banking secrecy, forming anonymous shell companies and secret bank accounts across the world. In doing so he has uncovered an uncomfortable truth for many of the leaders of Group of 20 nations meeting on April 2nd to discuss, among other things, sanctions against offshore tax havens. The most egregious examples of banking secrecy, money laundering and tax fraud are found not in remote alpine valleys or on sunny tropical isles but in the backyards of the world's biggest economies.

Panoramic Images

Wyoming, the Switzerland of the Rocky Mountains

At issue is not banking secrecy as the Swiss once knew it, where discreet men in plush offices promised to take the names of their clients to the grave. This is a more insidious form of secrecy, in which authorities and bankers do not bother to ask for names, something long outlawed in offshore tax centres such as Jersey and Switzerland but which has persisted in America. For shady clients, this is a far better proposition: what their bankers do not know, they can never be forced to reveal. And their method is disarmingly simple. Instead of opening bank accounts in their own names, fraudsters and money launderers form anonymous companies, with which they can then open bank accounts and move assets.

Nowhere is this more prevalent than in America. Take Nevada, for example. Its official website touts its "limited reporting and disclosure requirements" and a speedy one-hour incorporation service. Nevada does not ask for the names of company shareholders, nor does it routinely share the little information it has with the federal government.

There is demand for this ask-no-questions approach. The state, with a population of only 2.6m, incorporates about 80,000 new firms a year and now has more than 400,000, roughly one for every six people. A study by the Internal Revenue Service found that 50-90% of those registering companies were already in breach of federal tax laws elsewhere.

A money-laundering threat assessment in 2005 by the federal government found that corporate anonymity offered by Delaware, Nevada and Wyoming rivalled that of familiar offshore financial centres. For foreigners, America is a particularly attractive place to stash cash, because it does not tax the interest income they earn. Thus with both anonymity and no taxation, America offers them all the elements of a tax haven.

Change may be coming in America, but slowly. In March Senator Carl Levin proposed a law forcing states to identify the beneficial owners of corporations. "For too long, criminals have misused US corporations to hide illicit activity, including money laundering and tax fraud," said Mr Levin. "It doesn't make sense that less information is required to form a US corporation than to obtain a driver's licence."

Yet a similar bill introduced last year died a quiet death in committee.

America is not the only rich nation Mr Sharman tested. He tried to open anonymous shell companies and bank accounts 45 times across the world. These were successful in 17 cases, of which 13 were in OECD countries. One example was Britain, where in 45 minutes on the internet he formed a company without providing identification, was issued with bearer shares (which have been almost universally outlawed because they confer completely anonymous ownership) as well as nominee directors and a secretary. All was achieved at a cost of £515.95 ($753).

In other cases Mr Sharman formed companies by providing no more than a scanned copy of his driving licence. In contrast, when trying to open accounts in Bermuda and Switzerland, he was asked for documentation such as notarised copies of his birth certificate. “In practice OECD countries have much laxer regulation on shell corporations than classic tax havens,” Mr Sharman concludes. “And the US is the worst on this score, worse than Liechtenstein and worse than Somalia.”

Economics focus

An economic bestiary

Mar 26th 2009
From The Economist print edition

Macroeconomists need to apply some new lessons and relearn some old ones

Illustration by Jac Depczyk

NO TWO economic crises are identical. But the same questions recur. How did we get into this mess? How can we get out of it? How do we avoid another? Some answers repeat themselves too. You can be pretty sure that sooner or later someone, quite possibly an anguished economist, will declare that economics itself has gone astray. The wisdom of some past master, whether celebrated (John Maynard Keynes, for example) or neglected (Hyman Minsky, perhaps), has been forgotten, and the economy is paying the price.

A new book*, "Animal Spirits", by George Akerlof of the University of California, Berkeley, and Robert Shiller of Yale, follows this rule to the letter. The authors seek to answer the first of those three old questions and thus to provide some pointers about the other two. They do indeed believe that economics has lost its way. And their chosen economist is Keynes.

So far, so familiar. But this book is rather more than the usual lament about the failings of economics. Its authors are two of the discipline's leading lights. Mr Akerlof won a Nobel prize in 2001, in part for a classic paper explaining how, if sellers know more than buyers, markets may fail. (It was turned down by three leading journals before finding a home.) Mr Shiller sounded a warning about the "Irrational Exuberance" of the tech-boom stockmarket in a book of that name—and did the same for the housing market in a second edition. With a collaborator, Karl Case, he drew up a widely cited set of indices of American home prices.

The lesson that Messrs Akerlof and Shiller draw from Keynes is not just the standard one, of the usefulness of deficit finance in recessions. They borrow their title from "The General Theory of Employment, Interest and Money":

> Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as a result of animal spirits—of a spontaneous urge to action rather than inaction, and not as the outcome of the weighted average of quantitative benefits multiplied by quantitative probabilities.

Too much economics, say Mr Akerlof and Mr Shiller, has been built on the premise that humans are rational calculators. That is not a new criticism, even from economists. Over the past couple of decades *Homo economicus* has evolved into a being more like *H. sapiens*, as economics has drawn on psychology, biology and even neuroscience. "Behavioural" economics has shaped public policy—for instance, in encouraging people to save or in shaping the choice of investments in their pension pots. Behavioural

economists have earned Nobel prizes. Mr Akerlof and Mr Shiller, however, complain that this evolution has been confined mainly to microeconomics. It is time for macroeconomics to catch up.

One, two, three, four, five

Keynes mentioned animal spirits only twice, in a paragraph on what motivates people to invest and speculate. From this single thread, Messrs Akerlof and Shiller spin five classes of spirit. First and closest to the original is confidence. This goes beyond a rational estimate of next week's share price, or the price in ten years' time of what a new factory might produce. And confidence, or the lack of it, builds on itself—in a way similar to Keynes's multiplier, but defying easy quantification. Second is fairness. Even if economists know that fairness matters, too little of their work reflects it. Third is corruption, or bad faith: what explains a Charles Ponzi or an Enron? Fourth is money illusion: economists have come to assume that people see through inflation, but they don't, especially when it is low. The fifth they call "stories". Economists are loth to suppose that people are irrational enough to latch onto plausible tales and forecasts—for example, that house prices will never go down. So their models won't spot the consequences of misplaced belief until it is too late.

Messrs Akerlof and Shiller list eight questions which, they say, cannot be well explained without an appeal to animal spirits—but can be tackled with them. These range from why markets for housing and shares swing wildly (a combination of confidence, stories and bad faith) to why, contrary to standard theory, there appears to be a long-run trade-off between inflation and unemployment (mainly, a mix of money illusion and fairness).

The most topical of the eight, however, is the power of central banks. The animal-spirits version of the credit crisis is a mixture of bad faith, a collapse of confidence and a change from a happy economic "story" to a thoroughly miserable one. Credit has dried up—so that applying the fiscal and monetary stimulus consistent with full employment is not enough. The Federal Reserve should also have a target for credit. Unless credit flows again, fiscal and monetary measures will not suffice: companies can't borrow to build factories and consumers can't borrow to buy cars. The Fed was set up, Messrs Akerlof and Shiller point out, to maintain confidence after the financial crisis of 1907. That, rather than the fine-tuning of interest rates in steady times, is its most important task.

How much do animal spirits help? Most of the time, the unrealistic assumption of rationality serves economists fairly well. They should, however, be more prepared to depart from it, especially in times like these—even if that makes behaviour more difficult to describe in elegant equations. Messrs Akerlof and Shiller have therefore done their profession a service.

Yet their ideas carry risks too. To a politician seeking to rein in free markets, animal spirits are a gift. The authors sum up their view of the role of government thus: "The role of the parent is to create a *happy home*, which gives the child freedom but also protects him from his animal spirits." For liberals (in the European sense) that is not a wholly comforting thought.

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* "Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism". Princeton University Press, March 2009.

Marjorie Deane internship

Mar 26th 2009
From The Economist print edition

Applications are invited for the 2009 Marjorie Deane internship. This award, financed by the Marjorie Deane Foundation, is designed to provide work experience for a promising journalist or would-be journalist, who will spend three months of the summer at *The Economist*, writing about economics and finance. Applicants may also be considered, if they wish, for an internship of similar duration at *CFO Europe*, a sister publication of *The Economist*. Applicants should send a letter introducing themselves, with an original article of no more than 500 words that they think would be suitable for publication in this section of *The Economist*. Applications should be sent by email to deaneintern@economist.com or posted to the Business Affairs Editor (Deane internship), The Economist, 25 St James's Street, London, SW1A 1HG. They must reach us by April 24th.

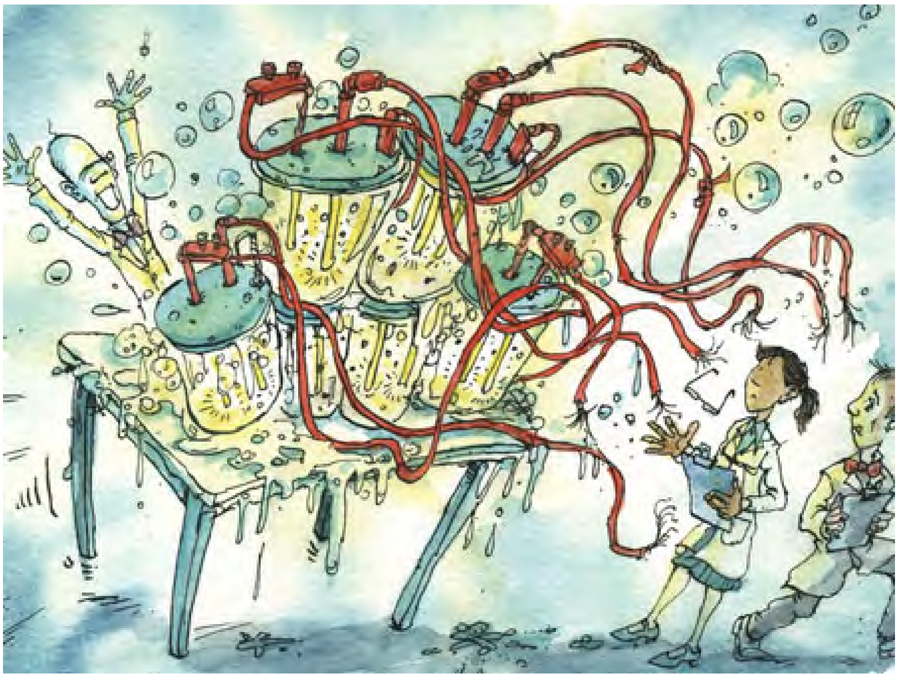
Table-top fusion

The beast that will not die

Mar 26th 2009
From The Economist print edition

New claims that cold fusion is no myth

Illustration by David Simonds



IN GREEK legend, the hydra was a many-headed monster. If a head was severed, it grew back. Indeed, in some versions of the story, two new heads sprouted. Some scientists wonder whether cold fusion is a similar beast. On March 23rd, 20 years to the day since Martin Fleischmann and Stanley Pons announced that they had accomplished nuclear fusion at room temperature in apparatus built on a laboratory bench (they hadn't), experimental results purporting to demonstrate such cold fusion were presented to a meeting of the American Chemical Society in Salt Lake City, Utah.

Cold fusion is so called to distinguish it from the sort that goes on in stars and hydrogen bombs. That needs a temperature of several million degrees. If cold fusion worked, it could provide an inexhaustible supply of clean energy. But it has been cold-shouldered by most scientists. Funding has dried up. What research there is, is conducted outside mainstream laboratories. In fact, its advocates have renamed their endeavours "low-energy nuclear reactions" because cold fusion has received such a drubbing. That is because most scientists think it impossible.

Fusion involves colliding small atomic nuclei together to form larger ones, and thus releasing energy. Because nuclei are positively charged, they are mightily difficult to push together. That is why high temperatures (and also high pressures) are thought by most physicists to be essential to the process. Exactly how two hydrogen nuclei could fuse at room temperature has not been elaborated. But proponents of cold fusion think it is possible.

Rearing another head

To try to persuade their fellow researchers of the reality of cold fusion, Pamela Boss and her colleagues decided to search for evidence of the presence of high-energy neutrons, which should be produced when two nuclei fuse. Dr Boss works for the Space and Naval Warfare Systems Centre in San Diego, California, an organisation that develops communication systems for the American navy. The experiment that she thinks results in cold fusion uses an electrochemical technique in which two electrodes are plunged into an

electrolyte made from a recipe that includes heavy water.

Heavy water gets its name because it contains deuterium, a form of hydrogen that has a neutron in its nucleus as well as the usual proton and thus weighs twice as much as the ordinary sort. Deuterium is easier to fuse than simple hydrogen, and so is favoured in these sorts of experiments. Dr Boss and her colleagues reported that one of the electrodes in their experiment got hot, an effect they attribute to fusion.

Most researchers in the field, though, do not accept that heat is sufficient evidence of fusion (if only because it was the basis of the Pons/Fleischmann claim). So to strengthen her case, Dr Boss placed a special plastic called CR-39 next to the hot electrode. If fusion was taking place, then neutrons flying through the plastic would cause protons within the material to recoil, leaving telltale tracks.

Studying CR-39 under a microscope and counting the number of tracks is a standard way to assess how many neutrons bowled past. Dr Boss and her colleagues reckon they have seen enough tracks to provide evidence for the emergence of high-energy neutrons from their experiment. They published the results earlier this year in *Naturwissenschaften*. Dr Boss told the meeting, “taking all the data together, we have compelling evidence that nuclear reactions are stimulated by electrochemical processes.”

Certainly there would appear to be something strange going on. But even if Dr Boss’s results really are evidence of high-energy neutrons, many physicists will continue to deny that cold fusion could be real. That is because there is no theoretical explanation for electrochemical cold fusion within the existing laws of physics.

A more plausible approach could come from bubble fusion. This technique, which was first reported in 2002 by Rusi Taleyarkhan of Purdue University, is not strictly cold fusion since it uses imploding bubbles to generate the high temperatures and pressures which conventional physics requires as a condition for fusion. But you can do bubble-fusion experiments on a table top using apparatus that costs thousands of dollars rather than billions, so they are conducted in the same spirit as Dr Boss’s work.

Unfortunately bubble fusion is also mired in controversy. Dr Taleyarkhan described to the meeting a theoretical paper that would appear to confirm that fusion is indeed possible within such imploding bubbles. Some of his colleagues, though, disagreed with his original findings. After a very public spat, Dr Taleyarkhan sued two of them, claiming that they had made defamatory remarks about him. Earlier this month, he reached a settlement with one of them, the details of which are confidential. However the university launched a series of its own investigations that eventually found Dr Taleyarkhan guilty of scientific misconduct. Purdue stripped Dr Taleyarkhan of his professorship last year, although he remains on the staff.

The hydra was eventually slain by Heracles (or Hercules, as he was known to the Romans). He did it by cauterising the monster’s severed necks to prevent regrowth before removing its final head with his bare hands because no weapon could do it. While many physicists would like to perform a similar trick on cold fusion, two decades on, the creature is proving surprisingly resilient.

Geo-engineering

Who ate all the algae?

Mar 26th 2009
From The Economist print edition

Using phytoplankton to trap carbon dioxide faces a snag

G. Mazzochi

We did!

MESSING around with ecosystems is an unpredictable business. That proved true again this week when a group of Indian and German researchers gave their first report from the biggest ever experiment in geo-engineering: an expedition to pour iron into the Southern Ocean, a vast area that encircles Antarctica, to stimulate a giant bloom of phytoplankton.

Phytoplankton are tiny algae that absorb carbon dioxide when they grow and then lock up some of the greenhouse gas when they die and sink to the seabed. Stimulate the growth of more phytoplankton, the theory goes, and you might send more CO2 to the bottom of the ocean, where it cannot contribute to global warming. But the experiment did not quite turn out like that.

The voyage, a joint venture by India's National Institute of Oceanography and the Alfred Wegener Institute for Polar and Marine Research in Germany, was controversial from the start. Some environmental groups claimed it was akin to pollution, and thus illegal. At one point, therefore, the German government ordered the Wegener Institute to suspend operations while it looked into the matter. Eventually, permission to continue was given and the research ship *Polarstern* made a two-and-half-month passage through stormy seas following the bloom that the researchers had created.

The growth of phytoplankton is kept in check by the amount of sunlight available for photosynthesis and the supply of crucial nutrients such as iron. In the Southern Ocean, iron is indeed often the limiting nutrient. As a result, when iron levels increase naturally (for example when a dust storm dumps large amounts of it into the sea) giant blooms of phytoplankton can suddenly appear. Previous studies have shown that adding iron artificially can also create algal blooms. The expedition's researchers wanted to find out how many of the extra algae end up on the sea bed.

Those researchers, led by Wajih Naqvi and Victor Smetacek, created a bloom of phytoplankton by fertilising an area of 300 square kilometres with six tonnes of iron sulphate, which dissolves in water. In two weeks the bloom's mass doubled. But it also proved to be extremely tasty for small crustaceans called copepods, which gobbled the phytoplankton up so quickly that even with further iron fertilisation the bloom stopped growing. As a result, only a small amount of CO2 was dispatched to the ocean floor.

The problem lay with the species of phytoplankton in the bloom. In previous experiments the blooms had consisted of a group of algae known as diatoms. As diatoms have shells made of silica they are protected from copepods and so are more likely to die without being eaten and thus take take their carbon to the ocean floor. But in the area where the researchers were working natural blooms had already depleted much of the silicic acid, which the diatoms use for shellmaking. The result was that the beneficiaries of the iron were instead groups of algae such as *Phaeocystis*, which are among the most heavily grazed by copepods.

Since silicic-acid levels are naturally low across about two-thirds of the Southern Ocean, the expedition's results suggest that iron-fertilisation would remove less CO2 from the atmosphere than optimists had hoped. Although that is a setback for proponents of large-scale iron-fertilisation, the results from the *Polarstern* expedition have given researchers lots to work on, including the role predators play in reducing algal blooms. And the results in one part of the ocean may be different from those in another because, as Ulrich Bathmann of the Wegener Institute points out, ecosystems in the sea are at least as diverse as those on the land. So the team may make another voyage to discover more.

Medical journals and ethics

Pity the messenger

Mar 26th 2009 | NEW YORK
From The Economist print edition

A leading journal unveils a controversial policy on financial disclosures

IN THE past scientists sometimes managed to publish medical studies flogging the supposed benefits of some or other drug without disclosing that they had financial ties to the drug's manufacturer. One of the leading voices arguing for full disclosure of such connections has been the *Journal of the American Medical Association* (*JAMA*). Catherine DeAngelis, *JAMA*'s editor, was even awarded the Catcher in the Rye humanitarian prize last year "because of her leadership on discussions of conflicts of interest in medicine."

So it comes as something of a shock to see her journal now engulfed by a scandal concerning its handling of precisely such a matter. The affair, which involves both non-disclosure of financial interests and alleged attempts to suppress whistle-blowers, has already drawn other medical journals into the fray. On March 20th *JAMA* published an editorial revising its procedures for investigating allegations of such misconduct—but this new policy has itself come under attack.

The trouble started when *JAMA* published a study last May that looked at how best to prevent depression in patients recovering from strokes. A team of researchers, led by Robert Robinson of the University of Iowa, compared the usefulness of "problem-solving therapy" (ie, talking) and escitalopram (a popular antidepressant drug also known as Lexapro) against a placebo. Lexapro is made by Forest Laboratories, an American firm under investigation by the Department of Justice for marketing that drug "for unapproved paediatric use and for paying kickbacks to induce physicians to prescribe".

The study prompted much favourable coverage of Lexapro, thanks in part to kind words from the its authors. In *USA Today*, a widely read newspaper, Dr Robinson insisted that "every stroke patient who can tolerate an antidepressant should be given one". But the study itself did not support such a clear conclusion. Rather, it found that although both forms of treatment were better than a placebo, there was no statistical difference between the results from the use of talk therapy and the popping of Lexapro.

Alas, as Jeffrey Lacasse of Arizona State University and Jonathan Leo of Lincoln Memorial University pointed out in a letter published in *JAMA* last October, Dr Robinson failed to clarify that important point in his paper. In a response published alongside the critical letter from Drs Lacasse and Leo, Dr Robinson and his colleagues acknowledged that Lexapro performed no better than talk therapy in their study, but insisted this omission was not intended to mislead.

To make matters worse, though, he had taken money from Forest Laboratories but did not disclose this fact. That surfaced only because Dr Leo did a bit of Googling after his letter was published, and found out that Dr Robinson had served in the past as a paid speaker for the firm.

Dr Leo informed *JAMA* of this non-disclosure, and was assured that the matter would be investigated. On his account of events, he then endured five months of silence before—assuming that *JAMA* was not going to act—he and Dr Lacasse published their revelations in a letter to the *British Medical Journal* (*BMJ*) on March 5th. That set off a fiery response from *JAMA*. According to Drs Leo and Lacasse, Dr DeAngelis rang up Dr Leo and his boss to express her displeasure in strong terms. They claim *JAMA* threatened to cut off access to its prestigious pages as punishment, but she denies that charge.

Dr Robinson now acknowledges that he served as a paid member of Forest Laboratories' speaker bureau "in 2004 and perhaps 2005". His failure to disclose this violated *JAMA*'s policy, which insists on disclosure of such relationships going back five years. Dr Robinson apologised in a letter published in *JAMA* on March 11th, blaming this omission as well as several other incidents on "errors of memory". And, on the same day, *JAMA* published its own correction, confirming Dr Leo's allegation and the other non-disclosures now admitted by the original authors.

It appears that *JAMA* had intended, even before the letter from Drs Leo and Lacasse came out in the *BMJ*, to publish Dr Robinson's letter and its own correction on March 11th. However, *JAMA*'s new editorial

policy, announced nine days later, demands that similar whistle-blowers say nothing to the media or other journals during the weeks or months it decides to take to investigate. Both the editor of the *BMJ* and a former editor of the *New England Journal of Medicine* have criticised this heavy-handed approach. What could possibly justify a policy that requires whistle-blowers to remain silent at an accused journal's pleasure?

The *JAMA* editorial explains that the new policy arises from a desire to "ensure a fair process of investigation and above all, to protect the integrity of science and the reputation of *JAMA*." The first two goals are laudable, but the rule of silence seems designed with the third, rather more self-serving, goal in mind. If *JAMA* is not careful how it implements its new policy, that may yet work against the first two goals.

Animal behaviour

Reputations in the mist

Mar 26th 2009
From The Economist print edition

Gorillas may not be as vegetarian as they are supposed to be

GORILLAS are gentle giants, chimpanzees aggressive killers and bonobos sex-crazed vegetarians. That, at least, is the PR which has been created around the three species of ape most closely related to man. They are simple stories—and simple stories sell books, TV programmes and even, whisper it softly, newspaper articles.

In nature, of course, things are a little more complicated. Chimpanzees are undoubtedly successful hunters, but the “wars” seen between neighbouring bands seem to have been brought on by human encroachment on their habitat rather than original sin. Bonobos, too, have been shown in the past year to hunt animals for food, and are losing their promiscuous aura as more data come in. Only gorillas have retained their reputations intact. Until now.

Part of the reason for the stories was that apes are hard to watch in the wild, and few people are prepared to put in the time needed to do so. Early observations were assumed to be representative, but were based on small samples. One way to extend those observations is to study animals in zoos.

And that is what Steve Ross, a primatologist at Lincoln Park Zoo in Chicago, has done. He has looked, in particular, at the interactions between zoo-held apes and local birds and small mammals. Some of his findings cast further doubt on the stereotypes.

Mr Ross and his colleagues, who have just published their results in the *American Journal of Primatology*, asked 71 zoos around the United States about interactions between the local wildlife and any bonobos, chimpanzees, gorillas or orangutans in their collections. The chimps did live up to their reputations. Four-fifths of the zoos that had them reported that they had killed at least one local animal during the past five years. Two-fifths of zoos with orangutans had likewise seen those animals hunt successfully over that period—which might surprise the layman, but such hunting has been seen in the wild. The most aggressive apes of all were the bonobos. In every zoo that kept them, these allegedly vegetarian creatures had killed visiting wildlife in the past five years.

But it was the gorillas that surprised the researchers most. In the wild, they seem to eat only plants and insects. Yet 30% of the zoos in the survey reported that their gorillas had killed some local wildlife, and in at least one case had eaten a bird.

This seemingly uncharacteristic aggression may be the result of captivity. Aberrant behaviour, often brought on by boredom, is not unusual in zoo animals. In fact, bonobo promiscuity seems to be an example of this. Wild bonobos (those few that have been watched carefully, at any rate) do not seem overly promiscuous. It is also possible, though, that gorillas hunt in the wild, but that no zoologist has yet observed them do so. If that is the case, then another carefully constructed zoological reputation will bite the dust.

Toil, toil

The pleasures and sorrows of work

Mar 26th 2009
From The Economist print edition

The oddities of the daily grind

The Pleasures and Sorrows of Work
By Alain de Botton

Hamish Hamilton; 326 pages; £18.99. To be published in America by Pantheon in June

Reuters

ALAIN DE BOTTON is a British essayist, novelist and, if one uses the term somewhat expansively, philosopher. Over the past decade or so he has cast a world-weary eye over travel, status and architecture, as well as writing a fine book about philosophers and an excellent meditation on Proust. His new book, "The Pleasures and Sorrows of Work", takes on that odd thing that most of us do for so many of our waking hours on Earth.

It would be easy to accuse Mr de Botton, who describes his new volume as "a hymn to the intelligence, peculiarity, beauty and horror of the modern workplace", of firing cheap shots. It is, after all, a simple matter to find any number of ridiculous employments if one wishes to skew one's analysis of work in that direction. His choice, for instance, of the design, marketing and manufacture of Moments, a British biscuit

composed of chocolate and shortcake, is an easy target. So too is the man whose main enthusiasm is cataloguing the structural characteristics of electricity pylons.

Even the most cerebral of endeavours, the work of physicists who build mighty rockets and breathtakingly ingenious satellites, can be ridiculed. For is it not grating that the intellectual attainments necessary to design and hurl a satellite into geosynchronous orbit should in the end turn out to have been deployed to no greater humanitarian or cultural end than the broadcasting of a channel called WOWOW TV at a target audience of Japanese schoolchildren? And why stop there? Why not a chapter about the absurdity of a life spent compiling books of popular philosophy and psychology. Or, for that matter, about the tragic waste in sitting up late at night at a solitary computer reviewing such books? It is all, you might be tempted to conclude, pretty pointless.

Except that we know that it isn't. Many people's work is creative, fascinating or valuable and rewarding. And for many others it is, and always has been, a worthwhile means to the end of feeding the children and paying the bills.

Such criticisms, though, would wholly miss the point of this pleasurably intelligent book, in which the butcher, the baker and the candlestick-maker of nursery rhyme give way to the chocolate-coated snack brand manager, the career counsellor, the rocket scientist, painter, accountant and vendor of warplanes.

First of all, Mr de Botton is rather witty. Here, for instance, is what he has to say about the swimming pool at his Mojave desert hotel (where he has repaired in the course of a visit to a scrapyard for aeroplanes): “Unfortunately, most of the budget for the pool had apparently been squandered on proclaiming, in an enormous illuminated display by the roadside, that it existed, leaving few resources for it actually to do so.”

Secondly, Mr de Botton is surely right when he reminds us that we rarely if ever think about where our Moments and our fluffy slippers, our 16-gigabyte iPhones and our Thai red chicken curry ready-meals come from, or what an immense concatenation of individual efforts is required to ensure that a fish swimming in the Indian Ocean off the Maldives can be converted, in a couple of days, into individually packaged tuna steaks in the refrigerated-foods aisle of a supermarket in the Bristol suburbs. It is, of course, a marvel, and Mr de Botton rightly marvels at it.

And finally, the author has plenty of thought-provoking things to say about work itself, the most absurd examples of what he scathingly calls “the culmination of a long history of the division of labour, which began in Ancient Egypt three millennia ago”. Unlike other animals, we need not struggle to find our next meal. But instead of using the time to master Swedish or calculus, we often choose to devote it to the utterly banal.

Yet even the most soulless of offices has its vital part to play. The “start of work means an end to freedom, but also to doubt, intensity and wayward desires... How satisfying it is to be held in check by the assumptions of colleagues, instead of being forced to contemplate, in the loneliness of the early hours, all that one might have been, and now never will be.” This last observation seems so heartfelt, so poignantly rendered, that one can only advise Mr de Botton himself to cease his solitary endeavours and take the plunge into the pleasures of office life.

The Pleasures and Sorrows of Work.
By Alain de Botton.
Hamish Hamilton; 326 pages; £18.99. To be published in America by Pantheon in June

Economist.com BOOKS & ARTS

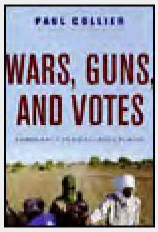
Wars, guns and votes

Democracy in difficult places

Mar 26th 2009
From The Economist print edition

IN THE poor world, elections often seem to be accompanied by violence, civil war or worse. Over the past two years, in Africa alone, Nigeria, Zimbabwe and Kenya have all experienced widespread unrest during and immediately after general elections. These ballots not only precipitated killing and maiming; the violence also seemed to discredit democracy itself. It allowed critics, such as China, to lecture the West on the inherent divisiveness of democracy; best not to bother, is the verdict from the East. And if your family has been incinerated in a church in Kenya in a bout of ethnic cleansing triggered by an election, who is to say that the Chinese are so wrong?

Wars, Guns, and Votes: Democracy in Dangerous Places
By Paul Collier



Harper Collins; 272 pages; $26.99. The Bodley Head; £20

Buy it at
Amazon.com
Amazon.co.uk

That is an uncomfortable question for Americans and Europeans. So Paul Collier's new book on democracy and conflict in poor countries is timely. As in his earlier book, "The Bottom Billion", which came out in 2007 and in which he coined the phrase to describe the world's poorest people, the author challenges a lot of lazy Western thinking about the trajectory that poor countries should take to improve their lot. Mr Collier is an academic economist, and applies quantitative research to democracy and government in the countries he looks at. His teams of researchers use data from household surveys, election results and the like to give statistical substance to some broad assertions. The results sometimes restate the obvious, but just as often they are new and provocative.

Most important, he shows unambiguously what observers of elections in poor countries have long suspected: that on their own, unless they are held in the context of a functioning democracy, elections can retard rather than advance a country's progress. "If democracy means little more than elections, it is damaging to the reform process," he writes.

Nigeria is a case in point. Its immense oil wealth, which should be used to help the country develop, makes politicians particularly anxious to hold onto office. They employ ever fouler means to do so, and elections thus become little more than organised gangsterism. The violent methods the politicians use become the *modus operandi* of their period in office, and the whole political system is corrupted.

Mr Collier observes that elections begin to pay dividends to society only when they occur in a system of checks and balances, with a functioning rule of law: "As with elections and reform, democracy is a force for good as long as it is more than a façade." That thought alone should make all Western donors and United Nations officials pause long and hard before doling out more millions of dollars to support so-called democratic elections in Congo, Nigeria or, maybe this year, Sudan.

Mr Collier also analyses the other factors that militate against the successful functioning of democracy and which cause violence in poor countries. Ethnic identity is one; the presence of a large pool of underemployed, testosterone-charged youths is another. Economic development is "a key remedy to violence", he argues; you may not be able to take the testosterone out of young thugs, but creating jobs gives them something to do other than take up machetes. Rapid development, his research shows, is probably the most important determinant for maintaining peace. Aid alone does not achieve this; encouraging a flourishing private sector does.

Likewise, creating a national identity helps to trump the politics of ethnic divisiveness by persuading people not to vote blindly for the party of their ethnic group, as happened in Kenya at the end of 2007. Mr Collier dwells on the example of Tanzania, where Julius Nyerere, the country's first president, succeeded in building a strong sense of nationhood. The result is a relatively long-standing peace, despite the historic differences that still prevail between the mainland and Zanzibar.

Rwanda is another country where the president, Paul Kagame, is determined to eradicate ethnic identity in the name of a greater national one. But in Rwanda's case, is this necessarily such a good idea? It was not the mere fact of ethnicity that caused the genocide of 1994, but rather the ideology of "Hutu Power" promoted by one ethnic group against another, the Tutsi. Human rights and basic freedoms of expression are all suffering in Mr Kagame's authoritarian rush to end ethnic self-identification in Rwanda. But will there be a price to pay for this further down the line?

Mr Collier devotes the last section of his book to a few big-picture solutions to some of the problems he talks about. Here he is less convincing. These amount to a more aggressive form of liberal interventionism, with all the usual drawbacks. He is a big fan of the sort of military commitments that enabled Britain, for example, to restore peace to Sierra Leone in early 2002. This leads him to propose that poor countries sign up to an international standard of democracy with the West, in return for which the West will intervene militarily if elected leaders are threatened by a coup. But this is exactly the sort of heavy-handedness that can rally a divided and fractious people behind an awful ruler.

Never mind. At least Mr Collier is thinking about these urgent and very difficult issues, something not many people are willing to tackle head-on. He has kicked off a debate that should be raging inside the development agencies and chancelleries of every Western capital, and in Africa and Asia too. The effort is surely worth it. This book was written before the recent knife-edge election in Ghana, a successful exercise in democracy, conducted in the most strained of circumstances. The rule of law prevailed. That will reassure outside investors and create a sound environment for the private sector. This is the sort of public good that elections and democracy should deliver, but so often don't. When it works, a good election can be a turning-point.

Wars, Guns, and Votes: Democracy in Dangerous Places.
By Paul Collier.
Harper Collins; 272 pages; $26.99. The Bodley Head; £20

Palestinian poetry

On the waste land

Mar 26th 2009
From The Economist print edition

MOST writing by Palestinians for the foreign reader depicts them either as hapless residents of the territories that Israel occupied in 1967 or as scattered refugees. This, along with the never-ending stream of news from the West Bank and Gaza, no doubt contributes to the popular notion of a Palestinian as someone who lives anywhere but Israel.

My Happiness Bears No Relation to Happiness: A Poet's Life in the Palestinian Century
By Adina Hoffman

Yale University Press; 454 pages; $27.50 and £17.99

Buy it at
Amazon.com
Amazon.co.uk

This is ironic, because all the grandees of Palestinian literature in Arabic, such as Emile Habiby, a novelist, and Mahmoud Darwish, a poet who died last year, are among those Palestinians who have made up one-fifth of Israel's population since the state's birth in 1948. In fact, notes Adina Hoffman, it was not until after the 1967 war reconnected them with their brethren in the West Bank and Gaza that they fully understood that, despite 19 years as citizens of a country that still prefers to call them "Israeli Arabs", they were still just as Palestinian as those "outside". Until then, they had been (and, to some extent, still are) viewed as collaborators with the Jewish state.

Thanks to an obsession with schooling that Israel inherited from the British Mandate governors, Arab literacy in Palestine had shot up since the start of the 20th century. At the same time Israel's birth had left the isolated "inside" Palestinians searching for a means of expression. The 1967 reunification unleashed a vibrant, hitherto hidden Palestinian literature on the rest of the Arab world. The young Darwish and his contemporaries, writers of populist, nationalist verse, were lionised abroad as the voices of a "literature of resistance", which suddenly became a legitimate alternative to the armed resistance often preferred by Palestinians in exile. The "1948 Palestinians", as those in Israel now often call themselves, went from being reviled as quislings to being hailed for their *sumud*, or steadfastness in refusing to leave their native land.

Taha Muhammad Ali was also wrestling with poetry when Darwish, ten years his junior, dropped his *sumud* and fled the country in 1970 after constant harassment from the Israeli security services. An industrious Nazareth souvenir-shop proprietor, Mr Muhammad Ali had spent much of his life in his ancestral village of Saffuriyya and then, after 1948, as a refugee in Lebanon, before stealing back into Israel and settling in Nazareth. (Saffuriyya, like hundreds of other Palestinian villages, was razed and replaced by a Jewish one.)

A voracious and largely self-taught reader, he had long been friendly with the top writers and had penned some literary criticism. But it was not until 1971, when he was 40, that he finally felt ready to write down the verses that had been brewing for years within him. He was in his 50s when he published his first book, and over 70 before Ibis Editions, a small Jerusalem press run by Ms Hoffman and her husband, Peter Cole, a noted translator of Hebrew as well as Arabic poetry, brought out his first collection in English.

Mr Muhammad Ali shied away from the overtly activist writing of the younger poets. Instead he used deceptively simple language and quirky tales as a way, as he liked to say, to "aim over here to strike over there". The title of Ms Hoffman's book is a line from a poem, "Fooling the Killers", that gently admonishes unnamed hunters not to take aim at what they perceive as the writer's happiness, because "my happiness bears/no relation to happiness."

The pointed yet forgiving honesty of Mr Muhammad Ali's writing and his bumbling, endearing presence onstage seem to have captured the hearts of both local and foreign audiences, bringing him a measure of global fame in his twilight years. And although Ms Hoffman admits that he is an odd choice of subject when there are still no biographies of his more famous contemporaries, his unassuming life makes him in many ways the ideal mirror for the "Palestinian century" of the book's subtitle. Veering between

biography, history, journalism and memoir, this painstakingly researched work is a human-scale picture of the generally under-reported history of the Palestinians in Israel as well as an accessible introduction to their poetry. Rather like the poet himself seems to be, Ms Hoffman's book is unpretentious, principled and utterly charming.

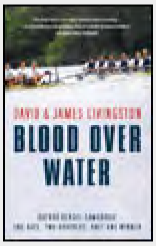
My Happiness Bears No Relation to Happiness: A Poet's Life in the Palestinian Century.
By Adina Hoffman.
Yale University Press; 454 pages; $27.50 and £17.99

The Oxford-Cambridge boat race

Shock and oar

Mar 26th 2009
From The Economist print edition

Blood Over Water: Oxford Versus Cambridge. One Race. Two Brothers. Only One Winner
By David and James Livingston



Bloomsbury; 320 pages; £18.99

Buy it at [Amazon.co.uk]

Illustration by Daniel Pudles

SIBLING rivalry has many famous examples. Cain and Abel, Linus and Lucy, Liam and Noel. Less well-known, but no less competitive, are David and James Livingston, two brothers who, in April 2003, raced on opposite sides in the Oxford and Cambridge University Boat Race, one of the toughest sporting challenges in the world.

"Blood Over Water", published to coincide with the 155th boat race on March 29th, tells in alternating narratives the story of how the brothers' quest for victory turned them into enemies. Providing context is the broader tale of the historic rowing competition between two prestigious universities.

The first boat race took place in 1829 on the River Thames at Henley in Oxfordshire and was the culmination of an idea of Charles Merivale, a Cambridge student, and his Harrow schoolmate Charles Wordsworth (nephew of poet William), at Oxford. The event was such a success—newspapers of the day reported crowds of 20,000—that Henley decided to organise its own (now famous) regatta and the boat race moved to Westminster in London. By 1845, with Westminster too crowded, the race moved up river to Putney. Today it still runs four-and-a-quarter miles (6.8km) from Putney to Mortlake and, despite being in the public eye for just one day each year, attracts a global audience of around 120m.

Training is brutal. For seven months potential crews (each with eight oarsmen and a cox) undergo two intense sessions every day, one on the water and one on indoor rowing machines or ergometers. Over that time they put in two hours' work for each of the 600 strokes they will take in the race. As they train, hearts race at over 200 beats a minute; lactic acid builds to stinging levels in muscles; fragile capillaries

burst in the lungs. To combat the physical demands made on them oarsmen must consume 6,000 calories a day, more than twice the normal daily requirement for men. All of this must be balanced against the demands of tutors, supervisions, essays, exams and long-suffering girlfriends.

“Blood Over Water” stands out from the mass of sporting memoirs thanks to the authors’ open portrayal of their relationship as the build-up to the race intensifies. David, the younger by three years, speaks unashamedly of his struggle to keep up with the high-achieving James, his emotions swinging from pride and love to envy and hate. James dreads failure and is consumed by the fear that his kid brother might beat him at his chosen endeavour. As race day approaches the two opposing camps eat meals at opposite ends of the family kitchen, communication is reduced to curt nods, and the feeling of brotherhood is replaced by one of hostility.

The irony of it all is that when Oxford wins the race, by one foot—a 0.0043% difference over the length of the course and the smallest margin on record—the younger man’s joy is tinged with guilt at taking away his brother’s dream. Proof indeed, that blood is thicker than water.

Blood Over Water: Oxford Versus Cambridge. One Race. Two Brothers. Only One Winner.
By David and James Livingston.
Bloomsbury; 320 pages; £18.99

Divorce and children

Dragons' den

Mar 26th 2009
From The Economist print edition

JULIE LYNN EVANS, a well-known British psychotherapist, deals with troubled children with remarkable devotion and insight. As the recession puts added strain on many marriages, her account of the mental stresses and strains that parental break-up inflicts on children could not be more timely.

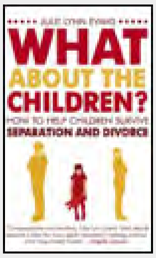
Many of the children Ms Evans sees do not want to talk at all, regarding grown-ups as untrustworthy or irrelevant. She starts by getting them to depict their lives in spray-painted graffiti on giant sheets of paper, or by making models from sand or clay. The outcome can be terribly sad: one depressed mother appears as a sagging black balloon; a dissolute absent father is scrunched up into a clay ball and hurled around the garden. It is hard not to agree with Ms Evans, that children from broken homes are almost always more distressed than their parents realise. The children she sees are clingy, rude, destructive or attention-seeking, and much else besides. Being ignored compounds the problem.

Her remedies are simple: rules and diversions. Self-discipline, unfashionably, is vital. Keep anguished and angry phone calls until after bedtime; children hate overhearing them. Don't burden them with details about legal fights or sexual infidelity. Avoid arguing in front of them and above all do not demonise the other side, however badly you think your ex-spouse has behaved. Children have a right to two parents. Poisoning their mind against one of them is "stealing" part of a child's "natural physical, emotional and spiritual inheritance", she argues. Some contact with even the most awful, addicted or inadequate parent is usually better than none at all: it helps the children make sense of what has happened. Very few parents, Ms Evans notes, have absolutely nothing to add to the lives of their children.

The other big lesson is that broken homes can be patched up from the outside. Grandparents, neighbours and others can offer children windows of happiness in an otherwise bleak week, with security, fun, companionship or a phone number (usually treasured but rarely used, in the author's experience) to call if things become unbearable. Such helping hands should be non-judgmental. The last thing a stricken ex-spouse needs to hear is that they are drinking too much or cooking too little.

What About the Children? How to Help Children Survive Separation and Divorce.
By Julie Lynn Evans.
Bantam Press; 352 pages; £12.99

What About the Children? How to Help Children Survive Separation and Divorce
By Julie Lynn Evans



Bantam Press; 352 pages; £12.99

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Contemporary art in Russia

Top guns

Mar 26th 2009 | MOSCOW
From The Economist print edition

The bear still hungers for new art

AFP

RUSSIAN billionaires may come and go, but the ambition to be the next Sergei Shchukin—whose unrivalled works by Henri Matisse were divided after the revolution between the Pushkin and Hermitage state museums—appears undimmed. Russian collecting is far from dead, thanks to “a new cast of characters”, says Francis Outred, Christie’s new European head of post-war and contemporary art.

Collections have become an object of fascination in a culture that once had few possessions. In October 2007 the Hermitage inaugurated its contemporary-art programme with an exhibition of work by young American artists from Charles Saatchi’s collection. “We like to see what these people spend their money on”, explains the curator, Dimitri Ozerkov.

On March 19th Daria Zhukova, best known as Roman Abramovich’s girlfriend, opened Russia’s largest exhibition of contemporary art. Located in her architecturally acclaimed Garage Centre for Contemporary Culture (GCCC) in Moscow, the show consists of 47 works from the collection of François Pinault (pictured above at the opening with Ms Zhukova), a French luxury-goods magnate who also owns Christie’s.

The exhibition is strategic for the French billionaire in two ways. Provenance has always added value to art objects, but the trend is towards promoting it proactively. Mr Pinault’s collection consists of over 2,000 works, which since 2006 have been packaged into a series of impressively curated shows. His new museum in the Punta della Dogana in Venice will be one of the highlights of this year’s Biennale.

Moreover, as a collector who sometimes sells and the owner of an auction house, Mr Pinault values Ms Zhukova and Mr Abramovich as clients. They bought a Lucian Freud painting at Christie’s last May for $33.6m, a record for a work by a living artist, and acquired decorative arts from the Yves Saint Laurent sale last month. The GCCC exhibition was an opportunity to further strengthen alliances.

The importance to the art market of Ms Zhukova and Mr Abramovich is symbolic as much as material. In a country where collecting foreign art ceased in 1917 and picked up pace again only recently, Ms Zhukova is in the vanguard of that mix of fashion, philanthropy and patronage that gives the art market its particular buzz, even if at the moment the couple may not be the biggest spenders. “Everyone had more financial freedom 18 months ago,” admits Ms Zhukova.

Other Russians are buying, though. Many start their international collections by acquiring a living brand name. “Every Russian collector owns a Damien Hirst”, says Maria Baibakova, a Courtauld-trained curator; she also collects with her father, Oleg Baybakov, whose business partner is Mikhail Prokhorov, currently considered Russia’s richest man. “Then you might graduate to a Richard Prince, a Warhol or a Lichtenstein,” she adds. Out of Mr Hirst’s sale at Sotheby’s last September, “Beautiful Inside My Head Forever”, Ms Baibakova bought a zebra in formaldehyde for £1.1m. Next week her space, Red October Chocolate Factory, will host highlights from Sotheby’s forthcoming spring auctions.

The success of Mr Hirst’s sale, which began the evening that Lehman Brothers collapsed, was in no small part due to collectors from the former Soviet Union. Vladislav Doronin, a Russian property tycoon, bought work, and Alexander Machkevitch, a Kazakh mining magnate, acquired two diamond cabinets, three butterfly paintings and a gold spot canvas for a total of £11.7m. Victor Pinchuk, a Ukrainian steel billionaire, is believed to have bought the large fish cabinet, “Here Today, Gone Tomorrow”, for £2.95m. It is one of the 100 works that will be shown in the Hirst retrospective, which opens at Mr Pinchuk’s Art

Centre in Kiev next month.

Over the past 18 months, a significant number of market highs and lows have been linked to the presence or absence of buyers from the former Soviet Union. Whereas demand for exorbitantly priced works by Modern artists, such as Kasimir Malevich, has evaporated, the appetite for contemporary works is spreading. Victoria Gelfand, a director of Gagosian, an important New York gallery, reports that she has sold art to two new Russian collectors in the past month alone. Whether that is enough, though, remains to be seen.

Jade Goody

Mar 26th 2009
From The Economist print edition

Jade Goody, a reality TV star, died on March 22nd, aged 27

PA

CAMERAS were not kind to Jade Goody. However flattering the angle, they could not disguise the fact that, as she breezily admitted, her lips were too thick and her nose too big. Nor could “50 million” different hairstyles—black wigs, blonde dyes, hair extensions—do much to improve the face that stared at her out of the tabloids. It was “just the way I was born”. For much of the time, despite popping slimming pills until it became an addiction, she was fat, too, and the paps captured that unsparingly. By any pool they would be lurking to get the pictures of her “kebab belly” overflowing her too-small bikini, and her DD breasts hanging out.

Cameras also relentlessly caught the odd ways she behaved and the silly things she said. But she was not just snapped tottering out of night clubs or in a clinch with the latest boyfriend. Her eruption into the limelight in 2002 through “Big Brother”, a reality TV show where housemates compete against each other for audience votes, meant she was first filmed daubing toothpaste on her spots; wondering aloud whether “East Angular [Anglia]” was abroad; having a quick fumble with a housemate under a duvet; and then, in the celebrity version of the show in 2007, getting into a vicious row with Shilpa Shetty, a Bollywood star, over the house shopping list, which ended up with her calling Ms Shetty “Shilpa Fuckawallah” and “Shilpa Poppadom”, to the huge enhancement of the show’s ratings.

All this coverage she sought out herself. Sometimes it made her cry; sometimes she laughed and didn’t care; but at the end of the day she had made the choice to live under the lights. The money, of course, was great, especially for a self-confessed “plonker” who came no better than fourth in her first “Big Brother” showing; £11,000 a month, she soon found, was the minimum she needed for posh cars, a big house in Essex and private school for her two boys. The celebrity she loved: her own dance and workout videos, turns on “Wife Swap” and “Stars in Their Eyes”, nights out with Prince Azim of Brunei (who gave her a ring of baguette diamonds almost as big as her hand) and her own perfume, Shh, which outsold Armani for a while. But “Big Brother” had also offered her a lifeline out of “a dark place”.

That dark place was her childhood in Bermondsey, a grubby corner of south-east London. Her parents were drug addicts. As a toddler in a cot, she watched her father at night injecting himself with heroin, his eyes rolling back in his head. Her mother smoked crack. Jade grew to loathe the smell of ash and spent matches and the sight of aluminium foil, but most of all she hated the lying: the fruitless attempts to

hide the paraphernalia, the futile pretence that all was normal, and the denials.

In the Big Brother house there was no hiding, except in the loo. Everything was on camera. And though the rows were fierce, they were far more bearable than being out of the spotlight and unseen by others. The lowest point of her life came when, after the fight with Ms Shetty, she was evicted from the Celebrity Big Brother house. Reviled as a racist (though an "escape goat", she thought), she was confined to a hotel room with the curtains drawn. She lay on the bed for days, swaddled in a black Puffa jacket, not eating and hardly knowing who she was.

Opioid lollipops

Among the dark places she avoided was her own medical condition. The odd faints and bleedings were scary, but appointments for tests were lost or ignored. When she heard that she had advanced cervical cancer (on camera, though not broadcast, on the Indian version of "Big Brother"), she felt at first "as if I was completely starkers, with a big torchlight shining through me". Fairly rapidly, though, she decided to sell her illness to the papers. Again, it wasn't just about the money. She could make other young women aware of the risks. And she could deal with death better, she said, if the cameras were on her.

For seven months she died in public. It was the most extraordinary of modern British deaths, orchestrated by Max Clifford, her publicist, in all the nation's tabloids. On the supermarket shelves, between the beans and the biscuits, Jade was seen with her oxygen tank on her lap, or sucking on opioid lollipops, or with her bald head tied up with yellow ribbon like an Easter egg. ("Stricken Jade: 'Get me out of this pain'.") When she could not appear, her small boys were proxies for her.

The British public, never keen to look too long at death, were not invited to go deeper. That mysterious place was illuminated only by *Sun* and *Mirror* pieties, where the angels were calling and Jade would be "the brightest star in the sky". She was baptised, but also consulted a white witch. On February 22nd she married her on-again off-again lover, Jack Tweed, on day-release from jail for assault. Rather than planning her funeral, she bravely wore herself out organising parties and cakes. The wedding rights were sold to *OK!* magazine for £700,000.

One of her last real pleasures was to watch the clips of that day. Death became her: with her £3,500 Mota dress her bald head looked perfect and beautiful. Exploitation, cried some observers. But her first exploiter was herself, and the cameras, for as long as they could, kept her alive.

Overview

Mar 26th 2009
From The Economist print edition

There were signs that **America's** housing bust may have reached the bottom. Sales of new homes rose by 4.7% in February, and the stock of unsold new homes fell. Sales of lived-in homes rose by 5.1% in the month. Orders for durable goods rose in February for the first time since July.

Industrial production in the **euro area** plunged by 3.5% in January. A closely watched gauge of euro-area activity, based on surveys of buyers, reached 37.6 in March, up from February but still well below the 50-plus readings consistent with growth.

The index of **German** business sentiment published by Ifo, a Munich-based research institute, edged down in March to 82.1 from 82.6. **French** business confidence was as low in March as at any time since 1962, according to INSEE, the statistics agency.

Consumer-price inflation in **Britain** rose unexpectedly to 3.2% in February. In an open letter explaining why, the governor of Britain's central bank said that currency weakness may explain some of the recent price pressures. He said inflation was likely to fall sharply again. Loans approved for house purchases rose in February for a third successive month, according to the British Bankers' Association.

Norway's central bank cut its benchmark interest rate by half a percentage point, to 2%. **Poland's** central bank trimmed its rate from 4% to 3.75%, a record low. Interest rates in **Hungary** were kept at 9.5%, to support the country's ailing currency.

Output, prices and jobs

Mar 26th 2009
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2009†	2010†	latest	latest	year ago	2009†	rate‡, %
United States	−0.8 Q4	−6.2	−2.2	+1.9	−11.2 Feb	+0.2 Feb	+4.0	−0.6	8.1 Feb
Japan	−4.3 Q4	−12.1	−5.3	+0.5	−30.8 Jan	nil Jan	+0.7	−0.8	4.1 Jan
China	+6.8 Q4	na	+6.0	+7.0	+3.8 Jan-Feb	−1.6 Feb	+8.7	−0.2	9.0 2008
Britain	−1.9 Q4	−6.0	−3.1	+0.5	−11.4 Jan	+3.2 Feb§	+2.5	+1.0	6.5 Jan††
Canada	−0.7 Q4	−3.4	−1.5	+1.7	−5.7 Dec	+1.4 Feb	+1.8	+0.5	7.7 Feb
Euro area	−1.3 Q4	−5.8	−2.4	+0.7	−17.3 Jan	+1.2 Feb	+3.3	+0.6	8.2 Jan
Austria	+0.5 Q4	−0.8	−1.3	+0.8	−4.7 Dec	+1.2 Jan	+3.2	+0.8	4.0 Jan
Belgium	−0.8 Q4	−6.5	−1.8	+0.9	−6.5 Dec	+1.9 Feb	+3.6	+1.1	11.2 Feb‡‡
France	−1.0 Q4	−4.6	−1.9	+0.7	−13.8 Jan	+0.9 Feb	+2.8	+0.4	8.3 Jan
Germany	−1.7 Q4	−8.2	−3.2	+0.8	−19.2 Jan	+1.0 Feb	+2.8	+0.4	7.9 Feb
Greece	+2.4 Q4	+1.2	−1.9	−0.3	−8.7 Dec	+1.6 Feb	+4.4	+0.9	7.8 Nov
Italy	−2.9 Q4	−7.5	−2.7	+0.5	−16.7 Jan	+1.6 Feb	+2.9	+1.0	6.9 Q4
Netherlands	−0.6 Q4	−3.4	−1.9	+0.8	−13.3 Dec	+2.0 Feb	+2.2	+0.7	4.1 Feb††
Spain	−0.7 Q4	−3.8	−2.5	nil	−23.6 Jan	+0.7 Feb	+4.4	+0.6	14.8 Jan
Czech Republic	+0.7 Q4	−3.7	−2.0	+1.6	−23.3 Jan	+2.0 Feb	+7.5	+1.8	7.4 Feb
Denmark	−3.9 Q4	−7.8	−2.2	+0.7	−9.2 Jan†††	+1.9 Feb	+3.1	+1.2	2.5 Feb
Hungary	+2.0 Q4	−3.9	−3.0	+0.4	−21.0 Jan	+3.0 Feb	+6.9	+2.9	8.4 Jan††
Norway	+0.8 Q4	+5.6	−1.2	+0.5	−0.6 Jan	+2.5 Feb	+3.7	+1.7	3.1 Jan***
Poland	+2.9 Q4	na	+0.7	+2.2	−14.9 Jan	+3.3 Feb	+4.2	+3.0	10.9 Feb‡‡
Russia	+1.1 Q4	na	−2.0	+3.0	−13.2 Feb	+12.0 Feb	+12.7	+13.0	8.5 Feb‡‡
Sweden	−4.9 Q4	−9.3	−2.2	+0.9	−22.9 Jan	+0.9 Feb	+3.1	−0.1	8.0 Feb‡‡
Switzerland	−0.1 Q4	−1.2	−1.6	+0.7	−6.0 Q4	+0.2 Feb	+2.4	−0.1	3.1 Feb
Turkey	+0.5 Q3	na	−2.0	+1.5	−21.3 Jan	+7.7 Feb	+9.1	+7.8	12.3 Q4‡‡
Australia	+0.3 Q4	−2.1	−0.3	+1.6	+3.8 Q3	+3.7 Q4	+3.0	+2.1	5.2 Feb
Hong Kong	−2.5 Q4	−7.8	−5.9	−0.2	−10.3 Q4	+0.8 Feb	+6.3	+1.1	5.0 Feb††
India	+5.3 Q4	na	+5.0	+6.4	−0.5 Jan	+10.4 Jan	+5.5	+5.4	6.8 2008
Indonesia	+5.2 Q4	na	+1.9	+2.2	−6.1 Jan	+6.9 Feb	+7.4	+5.5	8.4 Aug
Malaysia	+0.1 Q4	na	−0.3	+2.8	−20.2 Jan†††	+3.7 Feb	+2.7	+1.1	3.1 Q3
Pakistan	+5.8 2008**	na	+1.2	+3.2	−1.6 Dec	+21.1 Feb	+11.3	+10.1	5.6 2007
Singapore	−4.2 Q4	−16.4	−7.5	+1.9	−22.4 Feb	+1.9 Feb	+6.5	+0.9	2.6 Q4
South Korea	−3.4 Q4	−20.8	−5.9	+0.3	−25.6 Jan	+4.1 Feb	+3.6	−0.6	3.5 Feb
Taiwan	−8.4 Q4	na	−6.5	+0.1	−27.1 Feb	−1.3 Feb	+3.9	−1.0	5.6 Feb
Thailand	−4.3 Q4	−22.2	−4.4	+1.8	−21.3 Jan	−0.1 Feb	+5.4	−1.2	2.4 Jan
Argentina	+4.9 Q4	−1.2	−2.8	+1.5	−4.4 Jan	+6.8 Feb	+8.4	+6.4	7.3 Q4‡‡
Brazil	+1.3 Q4	−13.6	−0.4	+3.2	−17.2 Jan	+5.9 Feb	+4.6	+4.4	8.2 Jan‡‡
Chile	+0.2 Q4	−8.3	+0.4	+2.3	−8.9 Jan	+5.5 Feb	+8.1	+3.7	8.0 Jan††‡‡
Colombia	+3.1 Q3	+2.9	−1.0	+1.5	−10.7 Jan	+6.5 Feb	+6.4	+5.0	14.2 Jan‡‡
Mexico	−1.6 Q4	−10.3	−2.6	+1.4	−11.1 Jan	+6.2 Feb	+3.7	+4.8	5.0 Jan‡‡
Venezuela	+3.2 Q4	na	−3.0	−5.4	+2.4 Nov	+29.5 Feb	+25.4	+31.6	6.3 Q4‡‡
Egypt	+5.9 Q3	na	+3.9	+3.9	+7.3 Q3	+13.5 Feb	+12.1	+7.8	8.8 Q4‡‡
Israel	+1.2 Q4	−0.5	+0.4	+2.6	−4.1 Jan	+3.4 Feb	+3.6	+1.8	6.3 Q4
Saudi Arabia	+3.5 2007	na	+0.4	+3.3	na	+7.9 Jan	+5.8	+4.3	na
South Africa	+1.0 Q4	−1.8	−0.8	+3.1	−11.1 Jan	+8.6 Feb	+9.8	+6.0	21.9 Dec‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	−9.7 Q4	na	−8.0	−1.5	−26.8 Jan	+3.4 Feb	+11.3	+1.0	9.2 Dec
Finland	−2.4 Q4	−5.0	−2.8	+0.5	−19.5 Jan†††	+1.7 Feb	+3.7	+0.7	7.1 Feb
Iceland	−1.3 Q4	−3.6	−11.5	nil	+0.4 2007	+15.2 Mar	+8.7	+12.5	6.6 Jan‡‡
Ireland	+0.1 Q3	+4.7	−4.8	−1.4	−12.3 Dec	−1.7 Feb	+4.8	−0.7	10.4 Feb
Latvia	−10.3 Q4	na	−12.0	−2.0	−23.9 Jan	+9.6 Feb	+16.7	+3.0	10.4 Dec
Lithuania	−2.0 Q4	−5.1	−8.0	−2.5	na	+8.7 Feb	+10.7	+4.2	7.0 Jan‡‡
Luxembourg	−0.3 Q3	−5.5	−2.8	+0.1	−15.9 Nov	+1.2 Feb	+3.1	+0.5	5.5 Jan‡‡
New Zealand	−1.4 Q3	−2.7	−3.2	+0.5	−0.5 Q3	+3.4 Q4	+3.2	+1.6	4.6 Q4
Peru	+3.2 Jan	na	+3.1	+4.1	+3.9 Dec	+5.5 Feb	+4.8	+5.1	10.3 Jan‡‡
Philippines	+4.5 Q4	+4.1	−0.6	+1.6	−15.4 Dec	+7.3 Feb	+5.4	+1.9	6.8 Q4‡‡
Portugal	−1.8 Q4	−6.2	−2.8	−0.7	−19.1 Jan	+0.2 Feb	+2.9	−0.5	7.8 Q4‡‡
Slovakia	+2.5 Q4	na	+2.0	+2.8	−27.0 Jan	+3.1 Feb	+4.0	+2.8	9.7 Feb‡‡
Slovenia	−0.8 Q4	na	+0.4	+1.2	−17.4 Jan	+2.1 Feb	+6.5	+2.0	7.8 Jan‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation rate nil in Jan. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. ***Centred 3-month average †††New series

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

Mar 26th 2009
From The Economist print edition

The Economist commodity-price index
2000=100

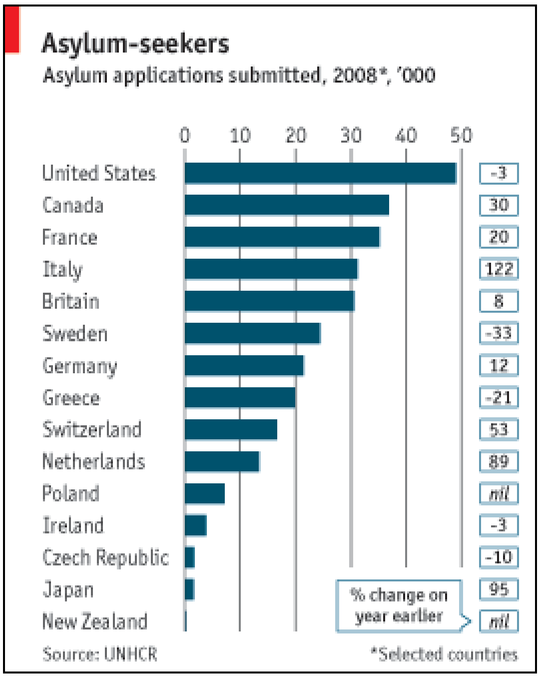
	Mar 17th	Mar 24th*	% change on one month	% change on one year
Dollar index				
All items	157.7	161.7	+7.4	-36.5
Food	184.4	188.8	+5.5	-25.4
Industrials				
All	123.2	126.6	+11.2	-50.7
Nfa†	107.1	111.2	+3.8	-41.4
Metals	132.0	135.1	+14.9	-53.9
Sterling index				
All items	170.6	166.5	+5.2	-13.8
Euro index				
All items	112.4	110.6	+1.3	-26.8
Gold				
$ per oz	916.80	923.50	-5.2	+0.0
West Texas Intermediate				
$ per barrel	48.97	53.55	+34.0	-47.3

*Provisional †Non-food agriculturals.

Asylum-seekers

Mar 26th 2009
From The Economist print edition

The number of people claiming political asylum in 44 mostly rich countries rose by 12% in 2008, according to a report from UNHCR. Much of the increase was because of rising numbers fleeing conflict in Afghanistan and Somalia. America was the biggest recipient of asylum pleas for a third consecutive year, though claims there were 3% lower than in 2007. Just five countries (America, Canada, France, Italy and Britain) accounted for more than half of all claims. The numbers seeking asylum in Italy more than doubled last year—many of them arriving from Africa by sea at the island of Lampedusa. Iraq provided the most asylum-seekers, with almost twice as many claimants as Somalia, the next-largest source.



Trade, exchange rates, budget balances and interest rates

Mar 26th 2009
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2009†	Currency units, per $ Mar 25th	Currency units, per $ year ago	Budget balance % of GDP 2009†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−797.1 Jan	−673.3 Q4	−3.3	–	–	−13.7	0.34	2.77
Japan	+28.5 Jan	+143.3 Jan	+2.0	97.7	99.1	−5.6	0.56	1.29
China	+311.5 Feb	+400.7 Q2	+6.1	6.83	7.03	−3.6	1.23	3.10
Britain	−167.7 Jan	−45.6 Q3	−2.0	0.69	0.50	−11.3	1.75	3.26
Canada	+41.6 Jan	+11.3 Q4	−1.1	1.22	1.02	−2.4	0.37	3.02
Euro area	−53.8 Jan	−90.2 Jan	−0.8	0.74	0.63	−4.6	1.55	3.14
Austria	−2.4 Dec	+16.8 Q3	+1.6	0.74	0.63	−3.4	1.55	4.01
Belgium	+8.2 Jan	−8.2 Sep	+0.7	0.74	0.63	−3.6	1.57	4.01
France	−80.6 Jan	−56.8 Jan	−2.2	0.74	0.63	−5.4	1.55	3.64
Germany	+250.7 Jan	+224.3 Jan	+5.3	0.74	0.63	−3.9	1.55	3.14
Greece	−65.0 Dec	−49.9 Jan	−12.2	0.74	0.63	−4.8	1.56	5.38
Italy	−18.4 Jan	−73.1 Jan	−2.0	0.74	0.63	−4.3	1.55	4.37
Netherlands	+51.7 Jan	+67.6 Q3	+6.2	0.74	0.63	−1.3	1.55	3.67
Spain	−139.3 Dec	−154.5 Dec	−7.8	0.74	0.63	−7.4	1.55	3.88
Czech Republic	+3.8 Jan	−7.3 Jan	−2.3	20.2	16.2	−3.0	2.49	5.29
Denmark	+5.6 Dec	+6.8 Jan	+1.0	5.50	4.73	−2.0	3.17	3.77
Hungary	−0.4 Jan	−11.3 Q3	−3.7	221	163	−2.7	9.56	11.90
Norway	+73.7 Feb	+83.4 Q4	+10.9	6.51	5.09	10.6	3.20	3.98
Poland	−23.1 Jan	−28.1 Jan	−4.9	3.35	2.24	−2.2	4.21	5.92
Russia	+170.8 Jan	+98.9 Q4	−3.3	33.6	23.5	−6.1	13.00	12.12
Sweden	+14.3 Feb	+40.3 Q4	+6.7	8.07	5.98	−3.3	0.25	3.10
Switzerland	+18.4 Feb	+40.3 Q3	+8.7	1.12	1.00	−1.7	0.41	2.03
Turkey	−65.7 Jan	−37.2 Jan	−3.4	1.66	1.27	−4.2	11.75	7.90†
Australia	−1.0 Jan	−44.1 Q4	−5.3	1.43	1.09	−3.1	3.15	4.46
Hong Kong	−25.1 Feb	+30.6 Q4	+9.1	7.75	7.78	−4.5	0.88	1.83
India	−111.2 Jan	−28.5 Q3	−3.7	50.8	40.2	−7.2	4.86	7.40
Indonesia	+8.0 Jan	+0.6 Q4	+0.2	11,530	9,180	−2.9	9.31	9.64‡
Malaysia	+42.2 Jan	+38.3 Q3	+7.8	3.63	3.19	−6.6	2.09	3.84‡
Pakistan	−19.7 Feb	−15.3 Q4	−5.8	80.6	62.8	−6.4	12.20	20.08†
Singapore	+14.7 Feb	+27.1 Q4	+15.4	1.51	1.38	−4.1	0.56	1.93
South Korea	−8.5 Feb	−5.0 Jan	+1.2	1,362	987	−3.5	2.42	4.93
Taiwan	+6.3 Feb	+25.0 Q4	+7.9	33.9	30.0	−5.0	0.90	1.41
Thailand	+1.7 Jan	−1.3 Jan	+1.4	35.5	31.4	−4.7	1.80	2.84
Argentina	+12.8 Jan	+7.6 Q4	−0.5	3.68	3.17	−0.8	14.44	na
Brazil	+24.2 Feb	−25.7 Feb	−2.2	2.24	1.74	−1.5	11.16	6.16†
Chile	+7.6 Feb	−3.4 Q4	−3.4	574	446	−3.5	3.00	3.65‡
Colombia	+2.1 Feb	−5.3 Q3	−4.0	2,377	1,820	−3.3	8.13	6.95‡
Mexico	−16.0 Feb	−2.4 Q4	−3.4	14.2	10.7	−3.2	6.52	7.74
Venezuela	+39.2 Q4	+39.2 Q4	+0.2	5.94	4.00§	−5.2	17.01	6.55‡
Egypt	−26.8 Q4	+0.1 Q3	−1.0	5.63	5.47	−7.1	10.52	4.13†
Israel	−12.8 Feb	+1.6 Q4	+1.9	4.17	3.49	−5.0	0.59	3.38
Saudi Arabia	+150.8 2007	+95.0 2007	−7.9	3.75	3.75	−8.0	1.15	na
South Africa	−8.7 Jan	−21.0 Q4	−7.0	9.44	8.04	−3.3	8.85	8.44
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−3.4 Jan	−1.9 Jan	−6.2	11.6	9.93	−3.4	7.12	na
Finland	+8.8 Jan	+4.8 Jan	+2.4	0.74	0.63	−4.1	1.52	3.85
Iceland	+0.1 Feb	−5.6 Q4	−4.9	117	74.5	−12.6	15.63	na
Ireland	+43.4 Dec	−16.4 Q3	−1.7	0.74	0.63	−12.4	1.55	5.50
Latvia	−6.1 Jan	−4.5 Dec	−5.0	0.52	0.44	−6.0	10.38	na
Lithuania	−6.6 Jan	−5.6 Jan	−7.5	2.55	2.19	−2.5	7.08	na
Luxembourg	−7.9 Dec	+4.0 Q3	na	0.74	0.63	−3.9	1.55	na
New Zealand	−3.6 Jan	−11.3 Q4	−6.3	1.76	1.25	−6.3	3.65	5.05
Peru	+2.6 Jan	−4.2 Q4	−4.1	3.13	2.77	−1.9	6.00	na
Philippines	−7.6 Jan	+2.9 Sep	+2.9	48.2	41.7	−2.6	4.56	na
Portugal	−34.0 Dec	−29.0 Jan	−7.7	0.74	0.63	−4.5	1.55	4.36
Slovakia	−1.5 Jan	−6.3 Dec	−4.8	22.3	20.7	−2.8	1.35	4.50
Slovenia	−4.5 Jan	−3.1 Dec	−4.3	0.74	0.63	−3.4	1.56	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

Markets

Mar 26th 2009
From The Economist print edition

Markets

	Index Mar 25th	% change on one week	Dec 31st 2008 in local currency	Dec 31st 2008 in $ terms
United States (DJIA)	7,749.8	+3.5	-11.7	-11.7
United States (S&P 500)	813.9	+2.5	-9.9	-9.9
United States (NAScomp)	1,529.0	+2.5	-3.0	-3.0
Japan (Nikkei 225)	8,480.0	+6.4	-4.3	-11.2
Japan (Topix)	818.5	+7.0	-4.7	-11.6
China (SSEA)	2,405.3	+3.0	+25.8	+25.7
China (SSEB, $ terms)	151.1	+3.8	+36.4	+36.2
Britain (FTSE 100)	3,900.3	+2.5	-12.0	-10.8
Canada (S&P TSX)	8,797.4	+2.0	-2.1	-1.3
Euro area (FTSE Euro 100)	658.7	+6.2	-11.7	-14.0
Euro area (DJ STOXX 50)	2,149.2	+6.4	-12.2	-14.5
Austria (ATX)	1,700.5	+9.2	-2.9	-5.4
Belgium (Bel 20)	1,757.0	+3.4	-7.9	-10.3
France (CAC 40)	2,893.5	+4.8	-10.1	-12.4
Germany (DAX)*	4,223.3	+5.7	-12.2	-14.5
Greece (Athex Comp)	1,694.3	+7.3	-5.2	-7.6
Italy (S&P/MIB)	16,263.0	+12.4	-16.4	-18.6
Netherlands (AEX)	225.6	+7.7	-8.3	-10.7
Spain (Madrid SE)	847.8	+5.2	-13.1	-15.4
Czech Republic (PX)	807.0	+14.3	-6.0	-10.0
Denmark (OMXCB)	210.8	+1.2	-6.8	-9.3
Hungary (BUX)	11,314.5	+14.3	-7.6	-20.2
Norway (OSEAX)	276.6	+9.4	+2.4	+10.1
Poland (WIG)	25,477.2	+11.3	-6.4	-17.3
Russia (RTS, $ terms)	740.9	+13.9	+29.2	+17.3
Sweden (Aff.Gen)	196.2	+0.4	-0.5	-2.6
Switzerland (SMI)	4,970.4	+3.9	-10.2	-14.9
Turkey (ISE)	25,536.4	+8.7	-4.9	-11.4
Australia (All Ord.)	3,546.2	+4.7	-3.1	-4.1
Hong Kong (Hang Seng)	13,622.1	+3.8	-5.3	-5.3
India (BSE)	9,667.9	+7.7	+0.2	-3.8
Indonesia (JSX)	1,420.0	+7.3	+4.8	-1.0
Malaysia (KLSE)	878.8	+3.6	+0.2	-4.4
Pakistan (KSE)	6,674.2	+6.5	+13.8	+11.8
Singapore (STI)	1,691.7	+7.3	-4.0	-8.3
South Korea (KOSPI)	1,229.0	+5.0	+9.3	+1.1
Taiwan (TWI)	5,346.4	+5.9	+16.4	+12.8
Thailand (SET)	436.9	+2.5	-2.9	-4.7
Argentina (MERV)	1,132.3	+6.3	+4.9	-1.7
Brazil (BVSP)	41,799.0	+4.1	+11.3	+15.9
Chile (IGPA)	12,128.1	+1.3	+7.1	+18.9
Colombia (IGBC)	8,031.2	+1.7	+6.2	+0.5
Mexico (IPC)	20,272.8	+3.3	-9.4	-11.8
Venezuela (IBC)	42,911.4	+4.5	+22.3	+31.7
Egypt (Case 30)	4,167.2	+6.5	-9.3	-11.3
Israel (TA-100)	654.4	+7.8	+16.0	+5.1
Saudi Arabia (Tadawul)	4,584.2	+4.2	-4.6	-4.5
South Africa (JSE AS)	21,257.6	+9.8	-1.2	-3.2
Europe (FTSEurofirst 300)	743.9	+4.6	-10.6	-12.9
World, dev'd (MSCI)	829.4	+5.1	-9.9	-9.9
Emerging markets (MSCI)	587.4	+8.0	+3.6	+3.6
World, all (MSCI)	208.1	+5.4	-8.6	-8.6
World bonds (Citigroup)	777.4	+1.8	-4.0	-4.0
EMBI+ (JPMorgan)	400.4	+1.4	+2.3	+2.3
Hedge funds (HFRX)‡	1,030.9	+0.6	+1.0	+1.0
Volatility, US (VIX)	42.3	40.1	40.0	(levels)
CDSs, Eur (iTRAXX)†	182.6	-4.5	-9.6	-12.0
CDSs, N Am (CDX)†	250.1	-6.2	+7.1	+7.1
Carbon trading (EU ETS) €	10.6	-14.2	-34.1	-35.8

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. ‡Mar 24th

Top exporters

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From The Economist print edition

The volume of trade in merchandise is set to fall by 9% this year, according to the World Trade Organisation. It would be the biggest one-year decline in trade since the second world war. Last year trade volumes grew by a sluggish 2%. Germany maintained its position as the world's number-one exporter. The dollar value of China's exports grew by 17%, helping it to close the gap on Germany. The top three exporters accounted for more than a quarter of the world's exports in 2008, though their combined market share fell slightly. That was partly because of a big rise in commodity prices, which lifted the value of exports from resource-rich countries, such as Australia, Russia and Saudi Arabia.